Introduction

Farmers make several marketing decisions in the spring of each year when they decide what they will or will not plant. While your decision is based partly on market factors, other things also enter into the "what to seed" decision such as crop rotation, climatic conditions, and degree of experience with a certain crop. Once the seed is in the ground you're committed to a certain crop so it is up to you to make the most of it.

Generally speaking, farmers have affected their bottom line by focusing on production management, that is maximizing productivity or reducing per unit costs. In the case of canola, production and marketing should not be viewed in isolation, rather they are a partnership to improving returns to growers.

Successful marketing depends on a plan or strategy. It takes into account the financial requirement of your farming operation and the options open to you to meet your requirements.

Background

Canola is an "open market" or "non-Board" commodity. Consequently the canola grower "sells direct" to the canola buyer.

Compared to many commodities produced in Canada which are largely dependent on export markets, canola is more evenly distributed between domestic and export markets. Of the canola seed traded (excluding that retained for seed and feed), between 40 and 45 percent is used domestically, with the remainder being exported. This dual market, coupled with the open market method of selling, provides you, as a canola grower, with a number of marketing alternatives and options within those alternatives which you must take into consideration if you are going to sell your crop to your best advantage.

For those commodities marketed by the Canadian Wheat Board, you receive a pooled price. This means that your payment is based of the average price the Wheat Board receives for all the sales of a particular grain which it sells during the course of a year. Within the open market system, you receive the price of canola on the day you sell or price your canola. Price is a function of supply and demand so it fluctuates accordingly. Consequently, it is important that you are aware of the factors that determine price so that you can appreciate the implications they will have on your decision when and where to market your canola.

Your decision on the appropriate timing for marketing your canola will depend on a number of parameters: your financial position, your cash flow requirements, price, quota, transportation, storage facilities and possibly even weather.

Your decision on where to market your canola will be influenced by such things as delivery opportunities, pricing and contracting options, service and price. The following delivery alternatives are available:

1. **a.) Country elevator:**

Your elevator is the local collection point for a grain handling company. In most cases the canola purchased from you is resold to the end user. (It may also be sold to a broker or exporting company which has no country collection system.) The grain company purchases your canola in order to fill sales which it already has made, or anticipates making, in the export market. Some country elevators may also act as off-site collection and storage points for canola crushers.

b.) Crushing plant:

There are nine oilseed crushing plants which crush canola, seven in western Canada and two in eastern Canada. Six of the plants crush canola exclusively. The canola seed is crushed primarily for its edible vegetable oil content. Canola meal for livestock feed is a co-product of crushing. A regular supply of canola is required to maintain ongoing operations at the plants. While constant operation is preferable (except for periods of plant maintenance), some of the plants have closed for extended periods when faced with negative crushing margins as a result of low world vegetable oil prices. Fifty percent of the oil and sixty-five percent of the meal produced by our domestic crushing industry must find a home in the export market.

c.) Producer car:

You may choose to load your own railway car, bypassing the country elevator system. While the sale of your canola may be made to a company which is only in the export business, it may also be made to a grain handling company which has country elevators. Due to the method of allocating rail cars for transporting canola, you must have an export sale made through the Canola Cash Call Market in order to receive a producer car.

d.) Grain dealers:

Grain dealers are essentially grain/canola marketers or brokers. They may not have an extensive infrastructure for gathering grain or oilseeds nor do they usually make sales directly into foreign markets. They arrange for a sale to an exporter in Vancouver, purchase canola from producers, and are then allocated rail cars, called dealer cars, to ship the canola to Vancouver to meet their sales commitments.

e.) Futures market:

Should it prove financially beneficial, you may decide to use the futures market to "lock-in" a price and then actually deliver against your futures contract to one of the acceptable delivery points. See Table 6 in the "Using the Futures Market Module" for acceptable delivery points.

When making a marketing decision you need to weigh the advantages and disadvantages of various options and strike a balance that achieves your goals. Remember, what appears to be advantageous one year may not be the next. Consider all the options in light of current circumstances.

The degree to which you market your crop will depend on your level of interest, your capabilities, the demands on your time, and how risk averse you are. You may choose to do minimal marketing, preferring to sell to the local elevator for a set price when you require cash. You may find that because of the demands on your time you appreciate the full line of services offered by the country elevator. You may decide it's worth your while to take the time to reduce downside price risk by hedging your crop through the futures market. You may feel that you need a guaranteed market for a percentage of your crop, so you enter into a production contract with a canola crusher. You may decide it is more efficient to load your own producer car and assign the savings against your own time and labor. Or you could use a combination of any or all of the above in order to take advantage of the benefits offered by each.

You may decide at one point in the year that you find the current price offered by either the export or domestic market acceptable to meet your requirements and sell all your canola at one time by combining pricing on delivery, pricing on storage and deferred delivery options.

You may decide to average your returns, in effect create your own pooled price, by selling at regular intervals during the year. Price is often the determining factor in whether you will sell. However if you are practicing effective marketing you need to look past the apparent price and consider:

- what does the price include: i.e., is there service attached to it and can you make use of the service;
- what is the cost of not accepting the price: i.e., consider your own carrying costs (storage and interest) associated with the particular option;
- what are the chances for future price movement - either in your favor or against you;
- does the price provide you with an acceptable level of return.

In developing a marketing strategy you must take two key factors into consideration because they will have a bearing on when and how you sell your canola. You must be aware of both your cash flow requirements and your cost of production. The timing of cash injections into your operation will help you determine during what periods of the year you should consider selling your canola. Your cost of production (fixed and variable costs) will provide you with a guideline as to what is an acceptable selling price. If you are in a market with as much tendency to go down as up, you need to know what price you require to cover your costs. Hoping for a certain price (speculating) won't cover your expenses. You need to know what is a realistic expectation and what is purely speculation.

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