# Developing a Marketing Plan

Curriculum Guide

## I. Goals and Objectives:

A. Understand the need for developing a marketing plan.
B. Understand each component of a marketing plan.
C. Develop marketing plans for their own use.

## II. Description / Highlights

A. The marketing plan needs to be written down. In addition, the plan must be dynamic. As external factors influence the market, the plan may need to change. Having a written plan helps define your goals and objectives, and helps identify what needs to be done to achieve them. The plan will act as a road map, and help you maintain the discipline needed to do a good job marketing.

B. The first step in preparing a marketing plan is to assess the operation's financial condition and your goals and objectives. Once you have a good understanding of the financial situation, debt load, cash flow needs, non-farm income, etc., you can begin to plan what to do to meet your short and long run goals. What do you want to produce? Can you get the financing? How much risk can the operation bear?

C. The second step is to determine what price objective is needed to fulfill your goals. This is often referred to as your production cost or break-even price. Calculate the price necessary to achieve your goals. Various price objectives could be to cover variable cash expenses, total cost, profit and growth needs, investments for retirement and/or college, etc.

D. The third component of the marketing plan is market outlook/expectations. How do the markets typically act and what is the possibility of them doing something different in the future? Write down those factors that you expect to influence price. These factors could include current U.S. and world supply/demand fundamentals, growing conditions in the U.S. and world, technical/seasonal/cyclical analysis, and political and macroeconomic factors. What is the market offering now? What is it likely to offer in the future? What is the probability that it can reach your objective?

E. Fourth, what production risk tools are available, and which are you willing to consider? Certain management practices such as irrigation, diversification, and dispersion of land holdings can help reduce production risk, but are not always feasible, especially in the short run. Yield futures and options, and numerous crop insurance products can also be used to reduce production risk, or, in some cases revenue risk.

F. Fifth, what pricing tools are available, and which are you willing to consider using? It is not an alternative if you do not know how to use it. Examples of these tools include forward contracts, futures markets, option markets, minimum price contracts, basis contracts, Cooperatives, etc. Using several of these tools allows you to spread out your price risk, and can give a longer horizon over which to find a profitable price that meets your objectives. Each tool has advantages and disadvantages that must be understood before utilizing them in a marketing plan.

G. Sixth, determine price and date objectives. Here you start to combine the information from previous sections of the marketing plan to identify target times and/or prices where you may want to make sales. You may want to price a certain percent of the crop by planting time, during any summer drought rally, or by harvest. You may also have certain price targets where you are willing to sell a certain percentage of your crop.

H. Seventh, putting together the overall strategy. This takes into account all the previous information such as the expected production, break-even price, market outlook, etc.

   As an example, consider your up-coming wheat crop. You may choose to scale up sales, selling ten percent increments of expected production at increasingly higher price levels. At what price would the first portion of the crop be priced? What tool would you choose to price the crop? Would you price only the insured production if it were pre-harvest? What if, by April, prices had only climbed to $3.95 per bushel, and the U.S. crop was looking excellent, i.e. prices were expected to fall? How much would you have priced using <u>any</u> tool? What will you do if prices decline to your break-even and you have not priced any of the crop yet? Even if you think prices will go higher, do you need some downside protection?

I. Like any plan, the marketing plan needs to be evaluated as to why it worked or why it did not work. In addition, evaluating the plan will assist the producer in identifying areas he needs to work on. The producer may need to expand his alternatives by being educated on specific marketing tools. Having a marketing plan will reduce the emotion of marketing, but it still takes discipline to stick to and execute the plan.

## III. Potential Speakers

A. Extension economists
B. Local commodity brokers
C. Marketing advisors

## IV. Review Questions

A. What are the components of a marketing plan?
   (1) Financial conditions and goals, (2) determining costs and price objectives, (3) market outlook and expectations, (4) production risk tools, (5) pricing tools / alternatives, (6) price and date triggers, (7) strategies.

B. Why does a marketing plan need to be dynamic?
Changing market conditions may necessitate changes in your marketing plan.

C. What is the advantage of considering both pre- and post-harvest marketing tools?
It spreads out the marketing horizon and gives you time to find a profitable price.

## V. For More Details

No publications available at this time.

## ! Why Have a Marketing Plan

- ☞ Goals and Objectives
- ☞ Road Map
- ☞ Discipline
- ☞ What If Analysis

## ! Financial Conditions and Goals

- ☞ Financial Situation
  1. Financial Statement Analysis
  2. Non-Farm Income
- ☞ Incorporating Goals
  1. (1-5-10) Year Goals
  2. Risk Bearing Capacity

## ! Determining Price Goals

- ☞ Costs of Production (Break-Even)
  1. Sensitivity Analysis
- ☞ Family Living
- ☞ Profit / Growth Needs

## ! Market Outlook / Expectations

- ☞ Fundamental Analysis
- ☞ Technical/Seasonal/Cyclical Analysis
- ☞ Political Situation

## ! Available Production Risk Tools

- ☞ Diversification/Irrigation/Dispersion
- ☞ Yield Futures and Options
- ☞ Crop Insurance
  1. MPCI, CAT, Hail (Yield)
  2. CRC, IP, GRP (Revenue)

## ! Available Price Risk Tools / Alternatives

- ☞ Pre- and Post-Harvest Pricing Tools
- ☞ Basis Pricing Tools
- ☞ Cooperative / Group Opportunities
- ☞ Combinations of Tools
- ☞ Lengthening the Marketing Horizon

## ! Price and Date Objectives

- ☞ Planting Time (Price Needed)
- ☞ Summer Drought Rally (Price Needed)
- ☞ Post-Harvest Seasonal Rally (Price Needed)

## ! Marketing Strategy

- ☞ Put The Written Plan Together
  1. When to Sell / and at What Price
  2. How Much to Sell
  3. How to Make Sales
- ☞ What to Do if Price Increases
- ☞ What to Do if Price Decreases

## ! Evaluation

- ☞ What Worked / What Did Not
- ☞ Areas That Need Improvement

# Marketing Plan

1. Financial Condition and Goals:

2. Price Goals (Break-even / Family Living / Profit and Growth Needs)

3. Market Outlook/Expectations

(fundamental, technical, seasonal)

| Bull | Bear |
|---|---|
| | |

4. Production Risk Tools (Available)

5. Price Risk Tools/Alternatives (Available)

6. Price and Date Objectives

7. Strategies

# 1998 Wheat Marketing Plan
## Mr. Mark Marketer

1. Financial Condition and Goals: My operation has had some problems the last couple of years. Low yields 2 years ago and average yields last year have not permitted any debt payments over the past two years. My banker is a little nervous. Susie will be going off to college in two years.

2. Price Goals: (Break-even / Family Living / Profit and Growth Needs)

| | |
|---|---|
| Production / Harvesting Cost | $1.36/bushel |
| Profit, Overhead, Growth | $2.52/bushel |
| Total | $3.88/bushel |

3. Market Outlook / Expectations:

| (fundamental, technical, seasonal) | |
|---|---|
| Bull | Bear |
| World Supplies Slightly Short | U.S. Supplies Adequate |
| Feed grains Are in Short Supply; Should Help Wheat Feeding | Excellent Planting and Growing Weather |
| | |

4. Production Risk Tools (Available)
   - MPCI
   - CAT
   - Hail
   - CRC

5. Pricing Tools (Available)

- Put Options
- Minimum Price Contract
- Forward Contract
- Cash Sales
- These are the pricing tools Mr. Marketer feels comfortable with at this point.

6. Price and Date Objectives

- If price is at or above $4.20 (KCBT July) by Jan. 15; sell 20 percent of expected production
- If price is at or above $4.00 by March 1; sell an additional 30 percent of expected production
- If price is at or above $3.80 by Apr. 15; sell an additional 30 percent of expected production
- Hold 20 percent till harvest or after

7. Strategies

- Use a scaled up sales strategy and reward the market with more sales as prices move higher.
- Do not let prices fall below breakeven without getting at least 75% of expected production priced.
- Use put options for any pricing done before Apr. 15.
- Use forward contracts for pricing from Apr. 15 until harvest.
- Give yourself at least 18 months over which to make sales; spread sales out.