

Developing and Implementing a Marketing Plan

Introduction to Risk Management
for Idaho Grain Producers
Nampa - Jan. 6, 1999

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Agriculture Continues to Face Many Types of Uncertainty

- Uncertainty makes planning difficult.
- Uncertainty also makes planning essential.
- Planning changes reactive to proactive.
- Output prices are a major source of uncertainty (price risk).
- A marketing plan helps manage price risk more effectively.

Production Decisions as Science

- Production is based on:
 - biological sciences
 - physical sciences
- Results are viewed as “predictable:”
 - variety and disease resistance
 - fertilizer and yield
 - pesticide application and control level

Marketing Decisions as Science

- Marketing is viewed as an inexact science.
- Marketing is based on social sciences:
 - economics
 - psychology
- Results are probabilistic, not predictable.
- Typically don't have recommended marketing practices.
- Marketing may be frustrating, but is crucial to success and profitability.

Marketing is a Complex Activity

- Marketing is more than “selling” a commodity.
- Serious marketing begins before planting, not after harvest (year around activity).
- Production and marketing are integrated.
- No single best marketing strategy exists:
 - varies over time, location, commodity, financial situation, etc.

A Marketing Plan is Necessary, but not Sufficient

- What else is needed?
- A farm plan:
 - Goals: short term and long term
 - Objectives: quantifiable with a time frame
- Good financial statements:
 - know your financial situation:
 - » how much risk can you handle?
 - » when do you need critical cash flow?
 - where you are today and where you are going



A Marketing Plan Works Only if
it Fits Your Operation, Your
Goals, Your Objectives and Your
Financial Situation

Purpose of a Marketing Plan

- Reduce pressures which often result in selling at a “bad time.”
- Help establish price targets:
 - compatible with market conditions
 - compatible with financial situation
- Identify times when market offers an “acceptable” price.
- Tool to help manage price risk.

Developing a Marketing Plan

(Necessary Background)

- Understanding the current market
- Knowing cost of production
- Formulating price expectations
- Developing market price objectives
- Knowledge of marketing alternatives
- Ability to write down and follow through

Developing a Marketing Plan (Essential Elements)

- Outlook
 - what's going to happen?
- Marketing Alternatives
 - what choices are available?
- A Marketing Strategy
 - what am I going to do?
- Disciplined Marketing Management
 - following the plan!

Market Outlook Using Fundamentals

■ Market fundamentals:

- supply & demand

■ Balance sheet approach:

- » Beginning Stocks
- » + Production
- » - Utilization
- » = Ending Stocks
- focus on changes as well as absolute levels.

Market Outlook Using Technical Analysis (Charting)

- Charts give a picture of past price behavior.
- Charting forces you to follow the market regularly.
- Charting helps you see:
 - market direction
 - market trends
 - market cycles

Marketing Alternative Examples

- Open (Spot) market
- Pre-season contracts
- Forward cash sales
- Consignment
- Basis contracts
- Futures contracts
- Options
- Government programs

Marketing Alternatives

■ Factors to consider:

- method of delivery
- place of delivery
- time of delivery
- cost of using
- pricing mechanism
- payment schedule
- contingencies

Marketing Alternatives

■ Advantages/Disadvantages:

- risk
- cash flow
- marketing convenience
- price level
- marketing cost
- flexibility
- negotiating power

Developing a Marketing Strategy

- Set objectives.
- Define how to meet objectives.
- Establish decision rules:
 - fixed vs. flexible sales
 - time-limited vs. open-ended
 - fail-safe vs. default

Developing a Marketing Strategy (continued)

- Test the strategy:
 - evaluate “what ifs”
 - evaluate fit to current changes
 - forecast the end result
- Establish criteria for changing strategy:
 - establish a contingency plan
 - revise and refine when needed
 - avoid “second guessing” trap
- Clearly define decision-making process:
 - person(s) responsible

Marketing Management

- Implement, follow, and evaluate plan!
- Remember:
 - discipline is important
 - good planning improves the chance of success
 - know and evaluate alternatives
 - good decisions sometimes have bad outcomes
 - no one goes broke making a small profit
 - evaluate decisions relative to objectives
 - your “Marketing Plan” must fit your operation