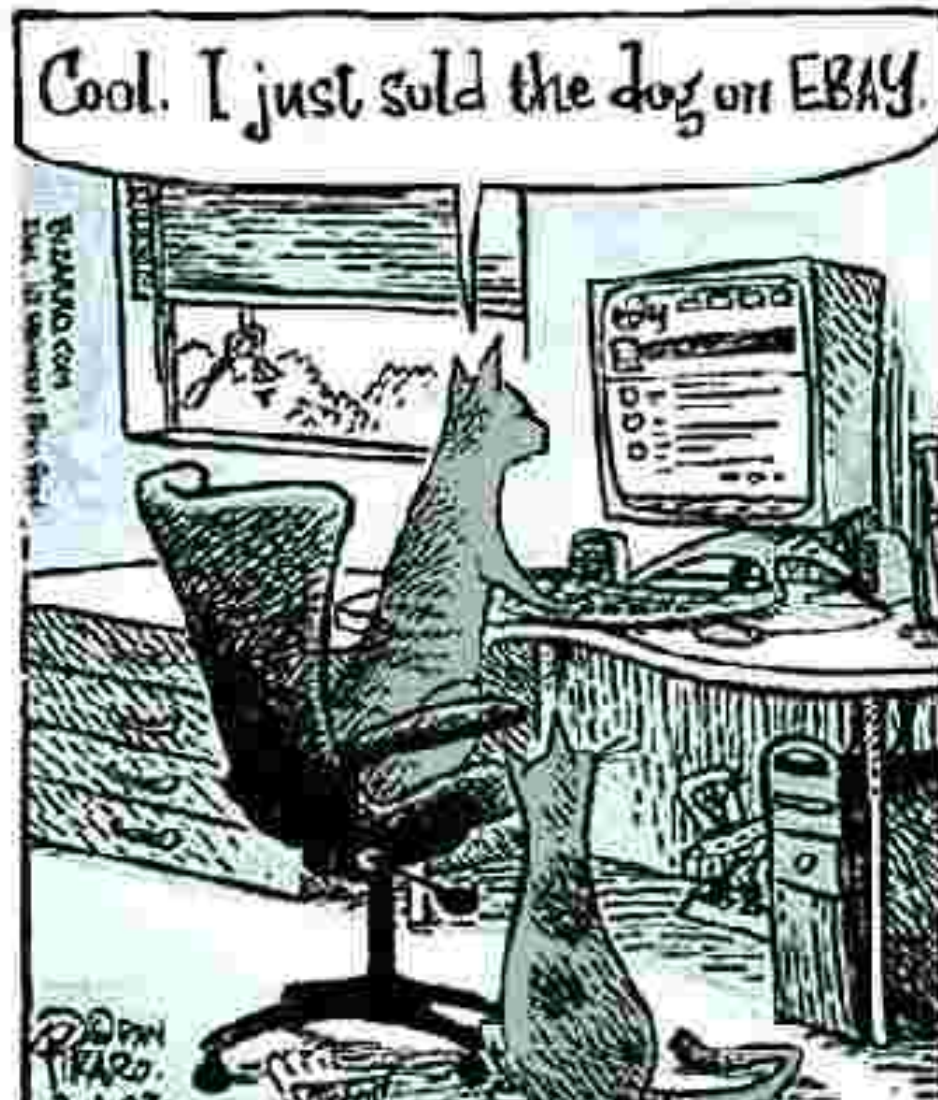


Marketing Irrigated Crops

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Farm Marketing is Serious Stuff!



Marketing Irrigated Crops - What's Different?

- not hugely different than marketing any dryland farm product but
- intense February/March through October workload . . .
- so much higher chance of missing market opportunities or marketing just doesn't get done
- much higher productivity potential and
- much higher capital invested in crop inputs
- so much higher level of financial risk

Six Common Slip-ups in Farm Marketing

1. Relying too much on outlook (price forecasting) to make pricing & marketing decisions

- ✦ outlooks give lots of supply and demand information
 - ✦ fancy charts and graphs
- ✦ outlook used to try to predict price direction
- ✦ "knowing" price direction very important part of marketing
- ✦ sometimes used to try to predict price highs (& lows)
- ✦ extremely difficult to predict crop price direction
 - ✦ usually related to growing-season weather (production)
 - ✦ occasionally increased (or decreased) demand

Six Common Slip-ups in Farm Marketing

2. Reluctance to pre-harvest market/pricing

- historical price patterns point to better new-crop pricing opportunities in the spring
- between 1990 and 2006 new-crop prices declined between May 1 to harvest in:
 - 12 out of 17 years in canola
 - 13 out of 17 years in corn
 - 10 out of 17 years in wheat futures

Six Common Slip-ups in Farm Marketing

3. Not knowing each crop's actual per-unit Cost of Production

- COP includes all cash costs, all overhead costs, and all fixed costs (and family withdrawals)
- can't make marketing decisions if don't know COP
- pre-harvest (estimated yields & costs)
- post-harvest (actual yields & costs)
- I'm not interested in pre-harvest pricing at prices below COP

Six Common Slip-ups in Farm Marketing

4. Not understanding and tracking local basis levels

- impact and importance often overlooked
- basis more predictable than cash price or futures price
- wheat basis less predicable
 - U.S. and Canadian crop quality has big influence on basis
 - index fund "tinkering" in U.S. futures markets
 - CWB wheat basis levels ? ? ? ?
- you need to know:
 - local basis pattern - what is the seasonality
 - what is "strong" or "weak" basis for each crop
 - how to make "strong" basis work for you

Six Common Slip-ups in Farm Marketing

5. Holding crop in storage too long

- ☛ storage a great tool but sometimes misused
- ☛ don't know what's a profitable price for farm's crops
- ☛ too much "hope" in marketing plan
- ☛ not considering full cost of carrying crop in storage
 - ☛ interest costs
 - ☛ loss risk - insurance cost, possible spoilage
 - ☛ cash costs - aeration costs, shrink costs

Six Common Slip-ups in Farm Marketing

6. Marketing isn't planned & strategic

- ✚ No pricing before or during the growing season
 - ✚ no hedges or DDCs or basis contracts or CWB PPOs
- ✚ I'll store 'till I get "my price"
 - ✚ "my price" moves higher as market moves up
- ✚ marketing is mostly reactive
- ✚ don't know what's a profitable price for each crop
- ✚ marketing is stuck!

How do we solve those slip-ups?

Make marketing a planned & strategic process

- ✦ develop written marketing plans - 3 parts

- ✦ **Pre-Harvest Marketing Plan**

- ✦ what I will do if this happens
- ✦ what I will do if that happens
- ✦ what I will do if the unexpected happens

- ✦ **Post-Harvest Marketing Plan**

- ✦ what I will do if this happens
- ✦ what I will do if that happens
- ✦ what I will do if the unexpected happens

- ✦ **Have an Exit Strategy**

How do we make marketing planned?

1. Use market signals to decide what to produce

- ✦ deciding what to produce is your first marketing decision
- ✦ what the market wants is signalled by:
 - ✦ new-crop prices, if available
 - ✦ new-crop outlook, if prices not available
- ✦ look at crop marketability for fall cash flow needs
- ✦ rotations - but often some wiggle-room.

How do we make marketing planned?

2. Figure your Farm Target Prices for each crop

☛ Survival Price

- ☛ lowest price I can take and farm business doesn't go backwards,
- ☛ may including family withdrawals

☛ Acceptable Price

- ☛ Full Cost of Production plus family withdrawals

☛ Favourable Price

- ☛ Acceptable Price plus Return on Investment/Return on Equity
- ☛ "pure profit" price

☛ figure during crop planning - expected yields & costs

☛ figure again after harvest - actual yields & costs

How do we make marketing planned?

3. Gather realistic new-crop market prices

- compare new-crop market prices with your farm
Survival, Acceptable & Favourable Prices

4. Plan for fall/early winter cash flow needs

- avoids payment-forced selling
- plan to separate pricing ahead of actual delivery
 - in pre-harvest marketing plan

How do we make marketing planned?

5. Buy and use quality market information

- ✚ Price Info - spot price & forward prices
- ✚ Market Analysis - what's happening and why
- ✚ Outlook - market forecasts
 - ✚ remember - use forecasts sparingly
 - ✚ keeps you realistic
- ✚ Suggested Strategies - cash & forward price strategies
- ✚ Remember: quality info costs \$\$ but pays \$\$\$\$\$

How do we make marketing planned?

6. Develop and write down your strategic plan

☛ Profit Driven Strategy:

☛ define your profit

- ☛ price product at Acceptable Price
- ☛ or Acceptable Price plus how much?
- ☛ Favourable Price

☛ define your price

- ☛ harvest price plus how much?

☛ define your allowable loss

- ☛ pull trigger on stored product at how much under harvest price or how much under Acceptable Price?

How do we make marketing planned?

6. Develop and write down your strategic plan

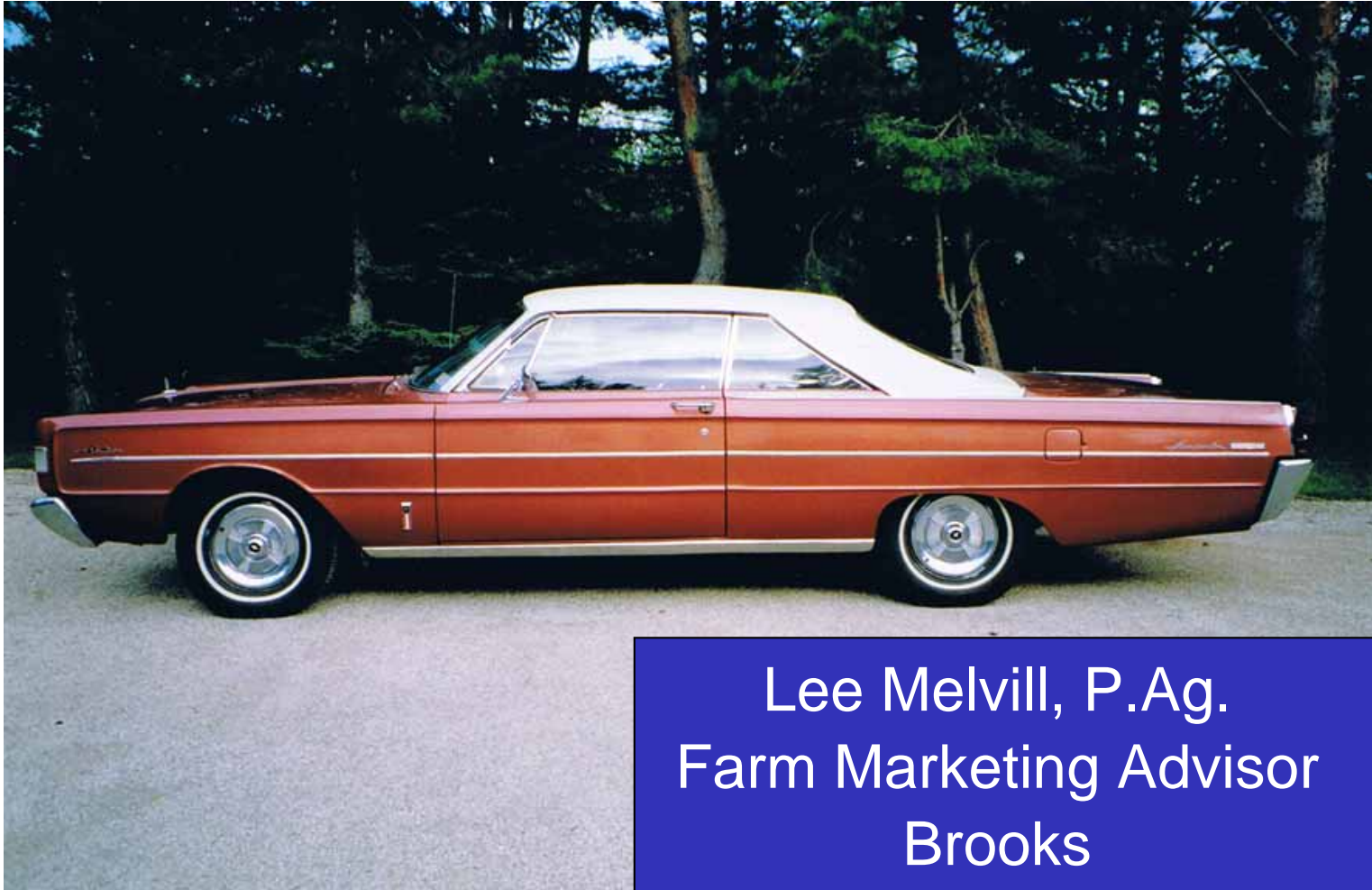
☛ Time Driven Strategy:

- ☛ price in regular intervals over a certain time period
- ☛ price certain % of crop before harvest if profitable
- ☛ have an Exit Plan
- ☛ have no unpriced crop on farm by June 1
- ☛ have no old-crop inventory on farm after August 1

Summing Up

Make Your Marketing Planned and Strategic

- Reduce reactive decisions
- Don't rely on farm press for market information
- Don't rely too heavily on outlook for guidance
- Figure your Survival, Acceptable and Favourable Prices - before seeding & after harvest
- Write your plan down - it's not unchangeable
- Marketing goal is profitability, not just price
 - sometimes goal is minimizing losses



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