

# Marketing Strategies for Agricultural Commodities

By: David Bau, Regional Extension Educator  
Erin J Weness, Professor Emeritus

UNIVERSITY OF MINNESOTA  
**Extension**  
SERVICE

8/2006

Proven marketing strategies are helpful when designing a marketing plan. A strategy is a plan of action based on historical price behavior. Researchers and farmers have compared strategies for years to determine which are the most profitable and probable. Results are dependent on the commodities and time period studied.

Many factors should be taken into account when determining a marketing strategy for your produce. Cash flow, storage capacity, and tax implications are primary determiners of marketing strategy. Other factors which should be considered are: risk of higher or lower prices, production risk, market price level, and seasonal and cyclical price trends.

## Here are several commonly used grain marketing alternatives:

- Sell cash grain directly from the field at harvest.
- Store cash grain at harvest and price when delivered.
- Store cash grain and forward contract for delivery next year.
- Store cash grain and obtain a basis contract
- Store cash grain and hedge on the futures market.
- Sell cash grain at harvest and buy back on the futures market.
- Store corn at harvest and sell on a hedge-to arrive contract or minimum price contract.
- Deliver at harvest and use delayed pricing.
- Deliver at harvest and price on a basis contract.
- Put grain under the government loan at harvest and sell in a later month as prices rise.

## Examples of Marketing Strategies

- In short crop years, price early in the year of production.
- In large crop years, put grain in storage and price it in May - July. Complete all sales by July 15.

- Store the grain at harvest and sell the carry and price grain for next spring and summer delivery.
- Sell it all at harvest.
- Market grain in 12 equal amounts starting at harvest.
- Sell three times per year- December, February and June.
- Sell 20% of crop in each month April through August.
- Forward price 40% of crop prior to harvest in May, June, July or August if the price is in the top 30% of the previous 10 years price range.
- Make all sales on Friday.
- Determine the top 30% of the price range. (In SW Minnesota soybean prices have been at \$6.00/bu. or better 34% of the time in the past 10 years.) Place a scaled-up sell order at the elevator for:
  - 10% of production at \$6.00.
  - 15% of production at \$6.25.
  - 20% of production at \$6.50 etc.

A strategy which works well one year may not work well the next year. As you can see some of the above strategies are quite simple while others are somewhat complicated. As a manager's marketing prowess increases, the level of sophistication that can be employed in his chosen marketing strategy is increased.

**When your barber buys corn, it's time for you to sell!**

## Using a Scaled-Up Approach:

Most experts don't advise a "one shot" sales strategy. It is too risky.

Many strategies employ a "scaled up" approach to marketing. You can do that by placing a standing order at your elevator stating that you will sell a specified number of bushels every time the market goes up a specific amount - say a nickel or dime.

Two reasons do the “scaled-up” approach. First, since you sell only when the price goes up, you always average your price up and never down. Second, it is nearly impossible to convince yourself to sell on a down market. A disciplined scaled-up approach forces you to sell on an up market and prevents you from holding indefinitely as prices are rising.

### **STRATEGIES BASED ON EXPECTATIONS**

If you expect **basis to narrow and futures prices to rise:**

- Store or wait to price
- Use a Delay Pricing Agreement

If you expect **basis to widen and futures prices to rise:**

- Use a Basis Contract
- Sell for cash now and buy futures or calls

If you expect **basis to narrow and futures prices to go down.**

- Hedge (Sell futures directly)
- Use a Hedged-to-Arrive Contract
- Use put options
- Use a Minimum Price Contract

If you expect **basis to widen and futures prices to go down:**

- Make cash sales now
- Forward Contract now
- Use a Minimum Price Contract

Any market plan or strategy should have a “Plan B” or plan which directs the marketing of your commodity if your price objectives are never met. For example: Your strategy may be to sell when prices reach \$6.50 /bu. If prices never reach \$6.50, your “Plan B” may be to sell by July 30th. or to sell one-half on May 15th and one half on July 5th.

### **Emotions can kill a good plan**

Usually emotional marketing decisions are bad decisions. One theory is that farmers are bullish 90% of the time. Meanwhile, the markets are bullish only 50% of the time. So it is easy to make a bad decision if you make it based only on emotion.

When the price is near the top, you won’t sell because you remain bullish in the hope of squeezing out an extra dime or two.

Meanwhile the market goes down and as it does, you remain bullish and hope for a recovery to the levels you passed up. You may keep on hoping for a turn around as the market skids downward. Then fear of an even lower price sets in and you finally SELL, possibly capturing the market bottom.

Emotional marketing decisions usually lead to poor results.

Develop a well thought out written marketing plan or strategy and stick to it. Don’t let your emotions override your reason.

### **Summing Up**

A market strategy has to be tailored to an individual producer. Financial position, market knowledge and emotional risk bearing ability all should be considered when choosing a market strategy.

A market plan or strategy does not insure success. The uncertainties of the commodities markets can make any strategy look bad. Over time, however, a marketing plan should add to average returns and reduce variability of returns.

---

*The University of Minnesota is an equal opportunity employer and educator.*