Econ 339x, Spring 2010 **Marketing Plan Assignment**
Due April 27 in Class **150 Potential points**

Oakview Farms has come to you for marketing advice. Oakview Farms has 600 acres of corn, 600 acres of soybeans, a 300 head cattle feedlot, and a 1200 head hog finisher. The feedlot and finisher are operated all-in / all-out on a year around basis. The farm owns 600 of the 1,200 acres it farms and cash rents the remaining 600 acres. Oakview Farms has a moderate amount of debt and has been encouraged by its lender to use more price risk management. Although the farm both produces and feeds corn, the four different enterprises are treated as separate profit centers. Oakview Farms has come to you for marketing advice. Choose two of four commodities to develop a marketing plan and present to Oakview Farms.

Report: Develop a marketing plan for <u>two</u> of the four commodities. You will market the current commodity and develop and implement a plan for the upcoming production of that commodity for Oakview Farms. Details for each commodity are attached. Develop a brief report (7-10 pages including attachments) for the enterprise you have selected with your recommendations and the expected results. *The reports should explain what you recommend, why you believe that is the best choice for Oakview Farms, and what the expected results will be.* More specifically, the report should do the following:

1) Sell the current commodity in the cash market consistent with the guidelines given. You can pick the amount to sell and the day to sell. Selling prices are to be based on the reported prices available at the time you sold. Use the average of the range for North Central Iowa cash grain prices for corn and soybeans. Use the weighted average price in the afternoon report for Iowa-Southern Minnesota negotiated prices plant delivered for barrows and gilts. Use the average price for 65-80% choice beef steers from the Iowa/Minnesota daily weighted average cattle report negotiated prices. Report the time the selling decision was made and the reported prices, (i.e., April 17 before the markets opened). The prices are found through the class web page under *Marketing project.*
   For each sale:
   1. Calculate and report the cash price, the basis, gross revenue, and net return.
   2. Calculate any futures or options gain or loss per bushel and in total.
   3. Calculate the net price and net return for the enterprise after futures and storage.

2) Develop and implement a marketing plan for the upcoming commodity. When buying or selling futures or options use the average between the high and low for the day. I will post a basis on the class web page that can be used for forward contract sales. The forward contract price is the futures close plus the posted basis. Therefore, you can only make forward contract sales after the market has closed and before it opens the next day.
   1. Estimate cost of production for the upcoming commodity. Use Iowa State University budgets, available through the class web page.
   2. You may use futures, options, or forward contracts to price the commodity that will be produced. You may choose to do nothing at this time.
   3. **Explain your marketing recommendation.**

Hog enterprise

Oakview Farms has one 1,200 head double curtain sided finishing barn that is operated all-in / all-out. The hogs currently in the barn are expected to be sold between April 7-18. Their projected average variable cost is $47.00 per **live cwt** and projected total cost is $50.00 per **live cwt**. Oakview Farms sold three April Lean Hog futures contracts November 2, 2009 on these hogs at $67.60/cwt **carcass weight**. New pigs will be delivered on April, 21st. The feeder pigs enter weighing approximately 12 pounds and are sold weighing approximately 260 pounds 24 weeks later. The weaned pigs are purchased from a closed coop to which Oakview Farms belongs. They are sold to the farm at a per head price equal to 52% of the five-month-out Lean Hog futures contract using the previous Thursday closing price. All feed is prepared at the coop and delivered to the farm.

Cattle enterprise:

Oakview Farms has 300 head of steers in the feedlot that will be available for market during the second week of April with a marketing weight of 1,250 pounds. The projected variable cost on these cattle is $81.00 per cwt and the projected total cost is $83.50 per cwt. Four April Live Cattle futures contracts were sold November 2, 2009 at $89.30 on these cattle. Oakview Farms will refill the feedlot in the third week of April with 300 head of 750 pound steers. These feeder cattle will be priced at the average of the Oklahoma City 700-800 pound price for the second week of April.

Feed purchases for cattle or hogs:

Oakview Farms has a standing agreement with the elevator under which corn for feed can be forward priced at $.20 under the futures close. However, there is sufficient corn stored on the farm to feed the cattle and hogs if you choose to feed corn from the corn enterprise to the cattle or hogs. If you buy corn from the corn enterprise you must document the purchase price and explain why you used the price that you did.

Corn enterprise

Oakview Farms has 30,000 bushels of corn available for sale, half is stored at home and half stored at the coop. The storage cost on the corn at home is approximately $.01/month plus interest at 7.5%. The coop storage is $.03 per month plus interest. The farm valued the corn at $3.60/ bu when it was placed in storage November 2. Three May corn contracts were sold November 2, 2009 at $4.0475. Oakview Farms plans to sell at least $70,000 worth of corn by April 15 to cover a land debt payment and spring crop costs. The cattle and hog enterprise will use corn from April to October. The corn marketing team is not required to sell corn to the livestock teams, but may be able to reach an acceptable agreement with one of the hog or cattle teams. If you sell to a livestock team you must document the sale to a specific team and not assume that you can dump the grain on them at any price.

The farmer plans to plant 600 acres of corn again this year. The expected yield is 180 bushels per acre on corn following soybeans. All 600 acres are corn following soybeans (300 on rented ground, 300 on owned ground). The 300 acres of the corn ground is owned and has a $120/acre cash cost for land debt and taxes. The rented ground has an average cash rent of $200 per acre.

Soybean enterprise

The farmer has 10,000 bushels of soybeans in storage, half at home and half at the coop. The expected storage cost on the soybeans at home is approximately $.01/month plus interest at 7.5%. The coop storage is $.03 per month plus interest. The farmer valued the soybeans at $9.55/ bu when it was placed in storage. One May Soybean futures contract was sold November 2, 2009 at $9.95. The farmer plans to sell at least $70,000 worth of soybeans by April 15 to cover a land debt payment and spring crop costs.

The farmer plans to plant 600 acres of soybeans again this year. The expected yield is 50 bushels per acre. All 600 acres of soybeans follow corn (300 on rented ground, 300 on owned ground). Owned land has a $120/acre cash cost for land debt and taxes. The rented ground has an average cash rent of $200 per acre.