

**Econ 337, Spring 2016**  
**Marketing Plan Assignment**

**Due April 28 in Class**

**150 Potential Points**

Oakview Farms has come to you for marketing advice. Oakview Farms has 600 acres of corn and 600 acres of soybeans. 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. For this assignment, you will develop a marketing plan and present it to Oakview Farms.

**Report: Develop a marketing plan for corn and soybeans. 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 report (12-15 pages including attachments) for the enterprises 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 commodities in the cash market and settle up the futures positions linked to the current commodities. You can pick the amount to sell and the day to sell. Use the Commodity Challenge site to make the sales and offset the futures positions. Report the time the selling decision was made and the reported prices from the Commodity Challenge site. Calculate storage costs from Nov. 1, 2015 and include the interest charge for the grain inventory (see line 39 of the spreadsheet at <http://www.extension.iastate.edu/agdm/crops/xls/a2-33.xls> for the formula for the interest charge).

For each sale:

1. Calculate and report the cash price, the basis, gross revenue from the cash sale, and net return (revenues less production costs).
  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, combining the cash, futures, and storage amounts.
- 2) Develop and implement a marketing plan for the upcoming commodities. When buying or selling futures or options, use the Commodity Challenge site. We will post a link on the class web page that can be used for forward contract sales. The forward contract price is the futures settlement price 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 commodities. Use Iowa State University budgets, available through the class web page.
    2. You may use futures and/or options as traded through the Commodity Challenge, or forward contracts (based on the futures settlement prices and posted basis), to price the commodities that will be produced. You may choose to do nothing at this time.
    3. Explain your marketing recommendation.

**Corn enterprise:**

Oakview Farms has 50,000 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 \$0.01/month plus interest

at 5%. The coop storage is \$0.03 per month plus interest. The farm valued the corn at \$3.43/bu when it was placed in storage November 1. A hedge of five May corn contracts was sold (the date and price will be determined in class). Oakview Farms plans to sell at least \$25,000 worth of corn by April 15 to cover a land debt payment and spring crop costs.

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 that is owned has a \$166/acre cash cost for land debt and taxes. The rented ground has an average cash rent of \$266 per acre. All other production costs match those reported in ISU Extension's "Estimated Costs of Crop Production in Iowa", <http://www.extension.iastate.edu/agdm/crops/pdf/a1-20.pdf>.

### **Soybean enterprise:**

The farmer has 20,000 bushels of soybeans in storage, half at home and half at the coop. The expected storage cost on the soybeans at home is approximately \$0.01/month plus interest at 5%. The coop storage is \$0.03 per month plus interest. The farmer valued the soybeans at \$8.21/bu when they were placed in storage November 1. A hedge of two May soybean futures contract was sold (the date and price will be determined in class). The farmer plans to sell at least \$25,000 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 \$166/acre cash cost for land debt and taxes. The rented ground has an average cash rent of \$266 per acre. All other production costs match those reported in ISU Extension's "Estimated Costs of Crop Production in Iowa", <http://www.extension.iastate.edu/agdm/crops/pdf/a1-20.pdf>.

### **Commodity Challenge Sign-up:**

For the Commodity Challenge website, you will need to sign up. There is a presentation file on the class website to guide you through the process, <http://www.econ.iastate.edu/~chart/Classes/econ337/Spring2016/CommChallSetUp.ppt>. Look for the game titled "ISU Econ337 Spring 2016." The game password is **econ337isu2016**. For your first homework assignment, you need to sign up for the game and sell the futures contracts outlined above (5 May corn futures and 2 May soybean futures) by Tuesday, January 19. Slides 15 and 16 of the presentation file will guide you to place the hedges.