



Managing for Today's Cattle Market and Beyond

Market Plan

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Introduction

A market plan is a scheme designed to assist in the pricing and movement of products to market. A market plan can be as simple or as complex as desired. The most complex approaches include everything from long term family goals and objectives to very elaborate execution plans. Simpler approaches usually concentrate only on pricing objectives. More complex forms usually are in written form — simpler plans may be only in “someone’s head” or with a broker.

Regardless of the approach used in developing market plans, there is one critical key. Plans are only as good as their execution. Complex plans that are not used are not as good as very simple plans that are used. Some of the major areas which should be considered in market planning are discussed below.

Why Develop A Marketing Plan?

There are many misconceptions about a marketing plan. Many farmers/ranchers feel it is so difficult to predict prices in the future that planned marketing is a futile exercise. The inability to predict the future with certainty is why planned marketing is important.

Market planning is not a one-time task. It must be a continuous flow operation. The plan must be flexible because factors affecting farm output and

market prices will change continuously over time.

A marketing plan is the management strategy for realizing the full potential profit from farming/ranching. A well-defined marketing plan is as useful to a farmer/rancher as a game plan is to the football coach. Successful coaches always have a workable strategy with specific objectives. Farmers/ranchers also must have a game plan for the task of profitably marketing their products if they are to be successful in the long run. A plan allows a farmer/rancher to market his products, not just sell them. The plan must be based upon the objectives of the business.

Elements of a Marketing Plan

There are many factors that go into developing a viable marketing plan. Most are based on the following questions: The product decision or “What product(s) do I produce and sell?”, the pricing decision or “What price do I need to sell my products for to meet my objectives?”, the methods decision or “How do I establish a price for my product?”, and the merchandizing decision or “When, where and how do I make delivery of the product to the buyer?”

Self Assessment

A market plan is not a recipe or cookbook which can be distributed and used by all. It must be tailored and designed to meet the various needs of each unique

operation. Both long and short term goals and objectives should be considered. An evaluation of required cash flows, everything from servicing debt or providing for family living, should be included. Attitudes toward forward pricing, including whether or not they will be used, which types are acceptable, and how they will be implemented, have a major impact on the market plan.

Planning is necessary -- remember this is a market plan. If one does not know where one is, it is almost impossible to know how to get "somewhere else" in an efficient manner.

Cost of Production

One way to establish pricing objectives is to start with the cost of production. Determining the cost of production is not an exact science. Some costs will be available from farm records. Others must be estimated. You must be fair in allocating costs. Do the best job you can. Then, be ready to make changes.

Costs should be divided into categories. One such division is fixed versus variable costs. Fixed costs include expenses you would have even if you didn't produce anything — interest on facilities and taxes. Variable costs include expenses that result from producing something (cattle) — feed, feeder cattle, vet expenses and hired labor. Remember, in the short run, receipts must cover the variable costs. If not, the best alternative is to "produce nothing".

One final comment on cost of production is needed. If you are a person who says "I'm going to produce cattle even if I don't know my costs", don't give up on a market plan. Rather, concentrate on executing the plan to best meet your goals and objectives. That may be nothing more than some preconceived price level. Remember, knowing your costs will help determine whether or not you made a profit. But, even if you don't know your costs, you still must "sell what you produce". You still want to do the best job of selling that you can.

Setting Triggers

A market plan must be executed to have value. The best way to do that is to set triggers. Triggers usually follow the form of "if this happens, I will do that". An example for feeder cattle might be "If I can lock in a \$60 price, I will do that for one-half of my production." Then, if higher prices are offered, I will price more of my production. Given that prices

change from year to year, trigger prices also may need to be changed regularly.

Sometimes, it is best to put "pulling the trigger" into someone else's hands. That could be a spouse, broker or another partnership member. That doesn't mean you don't have input in developing triggers.

Using breakevens is one way to develop triggers. The following simple example may illustrate the concept.

Item	\$/cwt	Running Total
Total variable costs	\$40/cwt	40
Family living needs	10/cwt	50
Desired profit	5/cwt	55
Fixed costs	3/cwt	58

One trigger might be set at \$50 for one-fifth of expected production, another fifth at \$55, and another 40 percent at \$58. And, all production could be priced if prices were above \$60. Trigger levels must be set for each situation. A good level for one person one year may not be good for someone else or at another time. Numbers used should be realistic and yours, not your neighbors.

Pricing Methods

There are many pricing methods available to cattle producers. Some, such as selling futures and cash forward contracts, can be used to put in price floors. There is also upside price potential. Others such as buying puts, can be used to put in floors and still leave the upside open. Forward pricing alternatives are discussed in greater detail in other articles.

Methods included in the market plan should include only those with which you feel comfortable. For some, that may mean only the cash market or cash forward contracts. For others, the futures market and/or options might be included. For others, combinations of pricing strategies might be used.

A single expected price from each of the alternatives cannot tell you the whole story, however. You must recognize that there is risk involved and that likely means there is risk in projecting only one price for each alternative. One way to determine risk is to ask not only what the most likely price is for each alternative, but also what the optimistic, pessimistic, best and worst prices may be.

You should understand what each alternative

can and cannot do. That may mean you will need to attend workshops, obtain study materials, and “do some learning”. You may be required to “change your thinking”. Looking for an acceptable price and being happy with it may replace always trying to top the market.

In selecting pricing methods, remember that what worked for you last year may not work today. What worked for the neighbor may not work for you. Some pricing methods provide better protection on the “downside” than the “upside”. You should know whether you are more “offensive” or more “defensive” minded. This may require some work, especially self evaluation.

Making the Decision and Following Through With the Plan

Making the pricing decision is the hardest part of planning a strategy. The procedure described is designed to lead to a well-informed pricing decision consistent with the goals of the operation.

The decision-making procedure can be summarized as shown in Figure 1. Each evaluation leads to a result and an action. The actions offered as examples reflect the possible results listed and are worthy of consideration but are not meant to be exhaustive or prescriptive. The lines indicate the process is a continuous flow. When a partial pricing or wait to price action is taken, the process is repeated as prices change and new fundamental information is obtained.

Most successful pricing plans do not rely on one strategy, but are combinations of strategies. Each plan should include a “backup” or contingency plan in case prices do not reach specified levels. For instance, a producer may determine there is a reasonable chance of a price rising to his price goal sometime during the production process. While waiting for the rise, he may use a moving average pricing strategy or purchase put options to reduce the chance of price declines below his critical level.

Once a decision is made, the producer should execute it. In sports, the most important part of any activity is the follow through. The same can be said for business plans and decisions. Don’t procrastinate. Make a good decision, and carry it out. It is likely the outcome will be as planned.

Evaluation

When the action is completed it is time to

evaluate the results of the plan. Did the plan meet the objectives? Were the objectives relevant? Was the decision based on current knowledge? Has any new knowledge surfaced since the decision that could have changed the decision? What did I learn from this experience? What should I have done differently?

The questions should be asked each year to improve marketing plans.

Figure 1: Pricing Decision Making Summary

