

Marketing: Critical for Effective Farm Management

Marketing provides the economic opportunity to apply farm management principles. With an effective marketing program, farmers use their management skills to ensure continuing profits. Poor marketing, on the other hand, can discredit a sound farm management decision if the price assumed in the analysis is not received. For example, a partial budget analysis might show that a farmer could increase farm income by diversifying into double-cropped soybeans and wheat. However, that decision is based on the farmer receiving at least \$6.75 per bushel for soybeans and \$3.90 for wheat. Before the farmer diversifies, he or she needs to develop a marketing plan that helps achieve these price goals.

Marketing plans and strategies vary considerably among farmers. Many farmers sell a homogeneous product (for example, No. 2 corn) in a competitive market with many buyers and sellers. As a result, these farmers are price takers, that is, they can sell as much as they want at a given price. Their marketing challenge is that they often face a range of prices in a given marketing year. This price variability exists because of fluctuations in supply and demand throughout the year. Successful marketing for these farmers implies selling as much of their crop as possible at the high end of the price range.

Other farmers sell products, such as vegetables, that are not as homogeneous. Their marketing strategy might be to differentiate the product to get a premium price. Another category of farmers benefits by marketing directly to the consumer (for example, farmers' markets). Clearly, farmers have many options

depending on their situations. But, with a sound marketing plan, they will have more control over the prices they receive.

Agricultural marketing is a key component of any farm management plan. Although farmers must invest time and work to develop a successful marketing plan, the rewards may justify the effort. The following seven strategies will help farmers develop a marketing plan. These approaches are not mutually exclusive; they are merely different ways of marketing farm products successfully. Examples are given to show how the strategies might apply to a variety of agricultural enterprises.

1. Sell for a High Price

Farmers typically want to sell their products for a high price. However, for homogeneous commodities, such as grains and soybeans, there often is a range of prices over time depending on supply and demand. For instance, Maryland soybean prices may vary by \$2 per bushel from the time of planting until the end of the normal storage season the following spring.

Two-thirds of all soybeans and grain are sold at the bottom one-third of the price range. Consequently, a reasonable goal for most farmers producing these commodities is to sell in the upper one-third of the price range. Because price trends are difficult to predict, however, farmers must avoid setting the goal of obtaining the highest price. To sell all production at the highest price of the season requires considerable skill and luck and

increases the risks of missing good prices and receiving bad ones.

To sell in the upper one-third of the price range, grain and soybean farmers should use both the cash and futures markets. Cash marketing alternatives include forward contracting during the growing season, selling at harvest, or storing for sales past harvest. Futures marketing alternatives involve hedging with futures contracts or options. To know which alternative to use in a given situation requires study and experience. Maryland Cooperative Extension has published the “Maryland Grain Marketing Notebook” to aid producers in this task.

Livestock producers face a marketing task similar to grain and soybean producers. However, livestock producers have fewer alternatives in the cash market because livestock cannot be stored as easily for later sale. Because the principles of hedging in the two futures markets are similar, the principles described in the “Maryland Grain Marketing Notebook” can apply to livestock producers.

2. Price Agricultural Products To Reduce Risk

Selling products such as grain and soybeans at the top one-third of the price range is not an easy task. Many farmers should not risk attempting this marketing goal exclusively, especially farmers who carry heavy debt loads. Although receiving high prices would be profitable, their marketing strategy should focus on securing a price that exceeds their per unit cost of production. The old adage “one cannot go broke making a profit” applies here.

The difference between pricing products in the top one-third of the price range and above the per unit cost of production is one of emphasis. For example, it may appear that prices are moving higher. Risk-averse farmers with a heavy debt load price grain once the price exceeds the cost of production. Farmers with less debt can risk waiting for higher prices. If those farmers are wrong and prices move lower, they suffer an expensive mistake but can still meet their financial obligations. Farmers with heavy debt loads cannot afford that mistake.

A problem with the cost-of-production marketing strategy is that in some years prices may fall below production costs. In the mid-1980s, for example, the market prices of corn and wheat were significantly lower than many farmers’ cost of production because of the large carryover of stocks from previous years. Market prices stayed low until the excess carryover was reduced. During those years, risk-averse farmers were forced to adopt the marketing strategy of selling grain at the upper one-third of the price range, however low that range might have been.

3. Develop a Market Before the Crop Is Planted

Vegetable farmers and other producers of horticultural crops should identify markets before they plant crops. Horticultural products, as opposed to grain crops, are highly perishable. Corn, for example, can be stored without undue risk of quality deterioration. Also, there may be grain elevators where corn can be sold readily.

This is not the case for vegetables. Many vegetables begin to deteriorate in quality and price at the moment of harvest. If farmers do not have access to a market to sell quickly, they will receive little or no revenue from the crop. The Southern Maryland Regional Farmers’ Wholesale Market for vegetables was developed because vegetables are perishable. Many farmers who participate in this auction market have roadside stands for direct sale of vegetables to consumers. In case of surplus supply, farmers can sell the excess at the auction market. Although wholesale prices are less than retail prices, this market provides a measure of protection to farmers because they can sell all their produce.

4. Market Directly to Consumers

Many farmers can increase their gross returns by selling directly to the consumer and assuming the functions of the various middle people or distributors.

The additional returns that accrue to the producer result from three factors:

- consumers are willing to pay higher prices for certain real or perceived values;

- many consumers prefer buying directly from the producer because of quality concerns; and
- farmers may perform the middle-person's function efficiently.

Typically, direct marketing is practiced by producers of crops such as vegetables, fruits, Christmas trees, and flowers. Many other types of farmers also sell directly to the consumer.

Direct marketing takes many forms. The most common is a roadside stand operated by the producer on or near his or her farm. Another variation of onfarm sales are pick-your-own operations. These operations significantly reduce labor in harvesting, sorting, and grading of the products. For many farmers not located conveniently to consumers, farmers' markets can also provide access to retail buyers.

Although revenues can be increased through direct marketing, there are additional costs. Vegetable crops generally are labor-intensive. Many farmers are unable to provide the additional services necessary to market their products directly; therefore, extra sales may not justify the extra expense. Also, direct marketing requires the farmer to be an effective salesperson. Successful salespeople cultivate their relationships with consumers to ensure that customers return. In addition, the retail stand or pick-your-own operation is a separate business quite different from farming. Promotion, pricing, personnel management, and product presentation are key factors in running these operations. Farmers must be willing to take time to learn and practice these skills to be successful. For more information about direct marketing, see Fact Sheet 804, "Selling Your Farm Products," available at your county Extension office.

5. Add Value to Products

Many farmers can increase their gross returns by adding value to their products. Studies show additional profits accrue to the producer because consumers will pay more for a value-added product.

With value-added enterprises, the farmer takes a product that normally is sold from the farm in its natural state and processes it to a form more attractive to the consumer. There are several examples. Many restaurant owners

buy vegetables from farmers, but because of labor shortages or high wages, restaurateurs prefer cut and cleaned vegetables. If the farmer can cut and clean efficiently, then he or she might be able to develop a successful market. There are farmers who now sell their cattle directly to consumers slaughtered, cut, and packaged. Some farmers raise sheep and blend and spin the wool into yarn. A market also exists for seasonal home decorations, such as wreaths, bunches of Indian corn, and shocks of corn.

Revenues can be increased with value-added operations; however, there are additional costs. And, like direct marketers, many farmers cannot afford to provide the processing labor. There are many opportunities for successful marketing of value-added products, but the farmer must remember that he or she is assuming the role of processor, not eliminating the function.

6. Differentiate Products

Often agricultural commodities are viewed as homogeneous by the consumer and the producer. This is appropriate for grains, oil-seed crops, and dairy products. However, many agricultural products can be differentiated. Differentiation involves developing a product unlike the competition's or one the consumer perceives as different. As a result, the consumer is willing to pay a premium for one particular farmer's produce as opposed to another's.

The most obvious' differentiation is quality. For instance, quality varies considerably among fresh vegetables. If a farmer can raise superior produce and also convince the consumer that it is superior, he or she has the opportunity to increase prices.

Another example of differentiation is selling organic agricultural products. Consumers believe that because these products have been produced without the use of inorganic chemicals, the food is healthier. Although organic products may not appear as attractive as conventional products, some consumers are willing to pay higher prices for organic foods. Common examples include organic vegetables, "natural beef," or organic wheat for baking bread.

Finally, farmers can capitalize on the rural charm of their farms to sell their products. Quite often pick-your-own Christmas tree operations provide hayrides, hot cider, and crafts to appeal to consumers. In essence, these farmers are selling family trips to the country—the Christmas tree is almost an incidental purchase.

7. Use Checkoff Funds

Many agricultural products cannot be differentiated efficiently at the farm level. Producers of these commodities have formed associations to provide financial

support to promote and develop their products at the industry level. Examples include milk, soybeans, beef, pork, and watermelons. The most common means of support for these associations are checkoff funds. In this system, all producers in a given region adopt the policy of contributing a small portion of their receipts on a per unit basis to the commodity association.

For instance, dairy associations promote milk as a healthy drink. The American Soybean Association highlights the high quality and many uses of soybean oil. If milk or soybean consumption increases, then all producers of these commodities benefit.

Marketing: Critical for Effective Farm Management

by

James C. Hanson

Farm Management Specialist

Department of Agricultural and Resource Economics

University of Maryland

Dale M. Johnson

Extension Economist

Department of Agricultural and Resource Economics

University of Maryland

Billy V. Lessley

Professor

Department of Agricultural and Resource Economics

University of Maryland

Issued in furtherance of Cooperative Extension work, acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, University of Maryland, College Park, and local governments. Bruce L. Gardner, Interim Director of Maryland Cooperative Extension, University of Maryland.

The University of Maryland is equal opportunity. The University's policies, programs, and activities are in conformance with pertinent Federal and State laws and regulations on nondiscrimination regarding race, color, religion, age, national origin, gender, sexual orientation, marital or parental status, or disability. Inquiries regarding compliance with Title VI of the Civil Rights Act of 1964, as amended; Title IX of the Educational Amendments; Section 504 of the Rehabilitation Act of 1973; and the Americans With Disabilities Act of 1990; or related legal requirements should be directed to the Director of Human Resources Management, Office of the Dean, College of Agriculture and Natural Resources, Symons Hall, College Park, MD 20742.