Creating Your Marketing Plan

Jeff Peterson
Heartland Farm Partners
402-366-4694
jeffpeterson@heartlandfarmpartners.com
www.heartlandfarmpartners.com

Topics

• Developing a marketing plan
• Answering the essential marketing questions
Marketing Plan Parts

- How much do you expect to produce?
- When do you need to move my grain?
- What is your farm profit and loss today? (breakeven level)
- How much do you sell before harvest?
- What is going to cause you to sell?
- How are you going to protect your cash price?
- What do you do once you sell and conditions change?

How much do you expect to produce?

Expected Production

Crop _______ Acres _______ x Expected Yield _______ = Expected Production _______

Crop _______ Acres _______ x Expected Yield _______ = Expected Production _______
When do you need to move my grain?

### Grain Movement Schedule

<table>
<thead>
<tr>
<th>Month</th>
<th>Crop</th>
<th>Crop</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvest</td>
<td></td>
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</tr>
<tr>
<td>November</td>
<td></td>
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<tr>
<td>December</td>
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<tr>
<td>January</td>
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<td>February</td>
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<td>March</td>
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<td>April</td>
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<tr>
<td>May</td>
<td></td>
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<tr>
<td>June</td>
<td></td>
<td></td>
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<tr>
<td>July</td>
<td></td>
<td></td>
</tr>
<tr>
<td>August</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What is your farm profit and loss today? (breakeven level)

Breakeven Prices

Crop ___________________________ Breakeven _______________________
Crop ___________________________ Breakeven _______________________

What is your farm profit and loss today?

Jeff Peterson

Current Revenue $946,301
Target Revenue $842,430
Avoid $104,471

Acres 631
Yield 197.00
Crop Sales $441,302
Insurance $5,598
Payments 50
How much do you sell before harvest?

Pre-harvest Sale Amount

Crop ________ Acres ________ APH ________ Insured Level ________ Insured Bushels ________

Crop ________ Acres ________ APH ________ Insured Level ________ Insured Bushels ________

How much do I sell before harvest?

• Sell up to your insured yields (RP Crop Insurance)
• Protect the unsold bushels with puts
How to Calculate Your Insured Yield

Actual Production History (APH) from crop insurance
Insured Level is the level of crop insurance coverage

Insured Yield = APH \times \text{Insured Level}

APH = 180
Insured Level 75%

Insured Yield = 180 \times 0.75 = 135 \text{ bushels per acre}

What Are Puts?

Price insurance based off the Futures Market that can be used to protect price if the markets lower. Traded on the CME (Chicago Board of Trade).
### Buying Put – Lower Market

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<tr>
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<th>Action</th>
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<tbody>
<tr>
<td>4/5/18</td>
<td>Buy 4.00 May Put</td>
<td>4.00</td>
<td>14 cents</td>
</tr>
<tr>
<td>4/10/18</td>
<td>Sell 4.00 May Put</td>
<td>3.90</td>
<td>17 cents</td>
</tr>
<tr>
<td></td>
<td>Gain</td>
<td></td>
<td>3 cents</td>
</tr>
</tbody>
</table>

### Buying Put – Higher Market

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<td>4.10</td>
<td>7 cents</td>
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<td></td>
<td></td>
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<td>-7 cents</td>
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</table>
## Buy Put Example

### Lower Market Basis Same

<table>
<thead>
<tr>
<th>Date</th>
<th>Cash</th>
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<th>Put Option</th>
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<td>4-11-18</td>
<td>Oct Delivery $3.50</td>
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<td>Buy CZ18 4.00 Put @ 20 cents</td>
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<tr>
<td>10-20-18</td>
<td>Oct Delivery $3.00</td>
<td>CZ18 3.50</td>
<td>-.50</td>
<td>Sell CZ18 4.00 Put @ 52 cents</td>
</tr>
</tbody>
</table>

**MSP**

\[
4.00 - .20 + (-.50) = 3.30
\]

**Actual Selling Price**

\[
\text{Cash Price} + \text{p/l of option} = 3.00 + .32 = 3.32
\]

**Put Profit** = .32

Minimum Selling Price (MSP) = Strike Price – Premium + Basis

Actual Selling Price (ASP) = Cash Price Received + p/l of option

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## Buy Put Example

### Higher Market Basis Same

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<td>Sell CZ18 4.00 Put @ 1 cent</td>
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**MSP**

\[
4.00 - .20 + (-.50) = 3.30
\]

**Actual Selling Price**

\[
4.00 - .19 = 3.81 = -.19
\]

Minimum Selling Price (MSP) = Strike Price – Premium + Basis

Actual Selling Price (ASP) = Cash Price Received + p/l of option
How are you going to protect your cash price?

Types of Contracts to Use

<table>
<thead>
<tr>
<th>Contract</th>
<th>Bushel Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
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How are you going to protect your cash price?

- Cash Price = Futures Price + Basis
- Basis = Cash Price – Futures Price
- Manage all the price risks separately by using a HTA contract.
  - Futures Risk
  - Basis Risk
Cash Marketing Alternatives

1. Cash Forward Contract
2. Hedge-to-Arrive Contract (NBE, Futures First, HTA)

- Cash Price = Futures Price + Basis

Or

- Basis = Cash Price – Futures Price
1. **Cash Forward Contract**
   - Cash contract that allows producer to sell cash commodity for delivery at a future date
     - Requires physical delivery
     - Quantity not standardized
     - Not a “Futures Contract”
   - “Locks In” the cash price
     - Both futures price and basis are “locked in”

2. **Hedge To Arrive**
   - Seller establishes Futures Price with buyer and leaves basis level unestablished
     - Cash price is **NOT** “Locked In”
       - Basis price is **NOT** “Locked In”
       - Futures is “Locked In”
   - Basis is set prior to time of delivery
   - Commonly known as “HTA, NBE or Futures First”
<table>
<thead>
<tr>
<th>Contract Type</th>
<th>Futures Price</th>
<th>Basis Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash - Forward</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>HTA</td>
<td>Yes</td>
<td></td>
</tr>
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</table>

**Which Contract to Use**

- **Basis Improve**
  - HTA
- **Basis Weaken**
  - Forward Cash
- **Futures Lower**
- **Futures Higher**
**Forward Cash Contract**

On 4-7-18, Sold corn. Futures Price = 4.15 and basis = -.30. Delivery was for October 2018

On 10-18-18, Delivered the grain. Futures Price = 4.00 and Basis = -.30.

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<tr>
<td>4-17-18</td>
<td>3.85</td>
<td>4.15</td>
<td>-.30</td>
</tr>
<tr>
<td>10-18-18</td>
<td>3.70</td>
<td>4.00</td>
<td>-.30</td>
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Actual Sale Price = 3.85
HTA Example

On 4-7-18, Sold corn. Futures Price = 4.15 and basis = -.30. Delivery was for October 2017

On 10-18-18, Delivered the grain. Futures Price = 3.50 and Basis = -.20.

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<td>3.30</td>
<td>3.50</td>
<td>-.20</td>
</tr>
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Actual Sale Price = 4.15 + -.20 = 3.95
What is going to cause you to sell?

### Timing of Sales

Method 1

Method 2

Method 3
What is going to cause you to sell?

- Farm Profit and Loss
- Technical Indicators
- Supply and Demand Change
- Gut Feel
- Advisor
What do you do once you sell and conditions change?

- Do nothing
- Buy Calls
What Are Calls?

Price insurance based off the Futures Market that can be used to protect price if the markets go higher. Traded on the CME (Chicago Board of Trade).

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-7 cents
## Buying Call – Higher Market

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## Forward Cash + Call Example

### Higher Market Basis Same

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MSP  

\[ 4.00 - .20 + (-.50) = 3.30 \]

Actual Selling Price  

\[ 3.50 + .32 = 3.82 \]

Minimum Selling Price (MSP) = Futures Price – Premium + Basis  
Actual Selling Price (ASP) = Cash Price Received + p/l of option
Forward Cash + Call Example
Lower Market Basis Same

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<th>Basis</th>
<th>Call Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-11-18</td>
<td>Dec Delivery $3.50</td>
<td>CZ18 4.00</td>
<td>-.50</td>
<td>Buy CZ18 4.00 Call @ 20 cents</td>
</tr>
<tr>
<td>10-20-18</td>
<td>Dec Delivery $3.00</td>
<td>CZ18 3.50</td>
<td>-.50</td>
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MSP

$4.00 – .20 + (.50) = 3.30

Actual Selling Price

$3.50 + (-.19) = 3.31

Minimum Selling Price (MSP) = Futures Price – Premium + Basis
Actual Selling Price (ASP) = Cash Price Received + p/l of option

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2017 Marketing Plan

<table>
<thead>
<tr>
<th>Name</th>
<th>Harvested</th>
<th>Garbanzo Beans</th>
<th>Sorghum</th>
<th>Barley</th>
<th>Wheat</th>
<th>Other</th>
<th>Total</th>
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<tbody>
<tr>
<td><strong>Production</strong></td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>50,000</td>
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<td><strong>Marketing</strong></td>
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<tr>
<td><strong>Marketing Plan</strong></td>
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<tr>
<td><strong>Expected Production</strong></td>
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<td></td>
</tr>
</tbody>
</table>

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Estimated Seed Corn Production

Estimated Production: Seed Corn

Estimated 2017 Harvest

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21/22/2018
Corn Price Outlook

• Nearby Futures Prices between now and March
  – Our Estimate 3.36 to 3.70 (Last Year 3.80)

• Nearby Futures Prices between now and July
  – Our Estimate 3.36 to 3.87 (Last Year 3.94)

• December 2018 Futures between now and Harvest
  Assuming Normal Weather (175.4 Yield in 2017, 2.487 Billion Carry Out, 3.36 Dec 2017 Low)
  – Our Estimate 2.200 Billion Carry Out, No Change in Acres, 173.5 Yield
    • Our Estimate 3.36 to 4.10 (Last Year 4.1725)
  – Reduce Acres 2 million acres 2.115 Billion Carry Out, 173.5 Yield
    • Our Estimate 3.50 to 4.20 (Last Year 4.1725)

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• Receive a free trial to our Farm Profitability Software

• You can sign up at our website at www.heartlandfarmpartners.com
Thank You and Questions!