

Take a step back and think about how you sell your production

How good are you at marketing? Here's a checklist to help you evaluate that



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O ften in these articles I'll discuss market activity, trading analysis and hedging strategies. This month, I want to look at the bigger picture of hedging.

In farming, the selling price and revenue from your final product, be it canola, wheat or cattle, can and will fluctuate dramatically from year to year.

For a company that produces, say, tables and chairs, those furniture prices won't change a lot on the shelves at Walmart, but the lumber used to make them sure will. That price of a loaf of bread doesn't move nearly as much as the price of a bushel of wheat. Or, think about Coca-Cola; the typical price of a can of Coke doesn't usually fluctuate a lot over the course of a year, but the price of sugar sure could.

This is why marketing and revenue management is so important to a commodity producer.

But before you can jump in to hedging and futures and options strategies, let's step back to ask a few good questions. I often find better answers by asking better questions so here are a series of really good marketing questions to ask yourself.

Backswath Management's Balanced Management Assessment "is a diagnostic tool designed to illustrate the balance that exists within and between the primary management functions (finance, human resources, marketing, and operations) on your farm. It will help you pinpoint areas that require attention and will provide information relevant to the development and implementation of growth and intergenerational transition plans.

Improperly balanced management, especially in growing and transitioning farms, can result in significant business challenges that have an undesirable impact on your financial performance.

Overall, this assessment seeks to help you answer the question: "How would you rate the overall 'balance' of your farm management?"

The answers range on a scale of 1 to 5 from "this management practice is not used on, or applied to, our farm," to "this management practice is fully used on, or applied to, our farm."

All the answers are then compiled and tabulated to show where your operation ranks to show you the good, the bad and the ugly by indicating the areas where you are strong, the ones that are doing OK and the ones that need help.

This article will focus on their marketing questions to help you more fully manage revenues and reduce risk. Taken from Backswath's list of over two dozen marketing-related questions, these can help identify actionable steps for better marketing results.

First, here are a few of those points that lay the foundation for a better overall farm marketing program: • We evaluate and analyze our marketing decisions throughout the year according to a predetermined and standardized process.

- We have a written, annual marketing plan in place.
- We have a written risk management plan that includes analysis and mitigation of market risk.
- We have a marketing plan that is updated at least quarterly.

Next, do you have the knowledge, experience and resources to take your marketing to the next level? Think about these points:

- We educate ourselves on the marketing options available and take professional development courses, including marketing management.
- We seek the opinions of others on our commodities' market outlook.
- We proactively stay abreast of global economic conditions and factor events into our marketing plan.

Then, on a month-to-month and quarter-to-quarter basis, these statements can help put your marketing plan into practice: • Our marketing strategies are not based on "hoping the market will go higher."

- We sell half or more of our inventory in the top 50 per cent of the commodity price range for the year.
- We forward contract (hedge) between 30 per cent and 40 per cent of our production.
- We believe our marketing success should be more than just attaining top-of-the-market prices.
- We develop specific price targets for marketing and stick to them. Finally, this whole exercise is about putting more money in your pocket at the end of the day, so think about these items as they apply to your operation:
- We know and understand how our financial and operational needs tie into our marketing plan.
- We know the break-even price to cover total costs for each commodity and conduct sensitivity analysis.
- We know the production cost of each commodity we grow/raise and how they rank in terms of profitability.

Bottom line, commodity sales are your top line, so marketing is a key component of farm management.

Keep in mind that even a five to 10 per cent increase on revenues can have a large multiplier effect on your bottom line profit. One good way to fine-tune your revenue management is to take a step back, take inventory and really think about how you sell your production.

Ideally, your farm marketing process can become more balanced, easier to manage and ultimately more profitable.

If you found these questions to be a helpful framework, you can find the whole questionnaire on their website: www.backswath.com.

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