



Wheat Marketing Plan

Kim Anderson
Extension Economist

Derrell Peel
Extension Economist

Oklahoma Cooperative Extension Fact Sheets
are also available on our website at:
<http://osufacts.okstate.edu>

Introduction

Determining when to sell agricultural production may be a producer's most dreaded task. Marketing may not be fun, but marketing can become less painful. Removing the pain and dread from making marketing decisions is what this fact sheet is about.

Developing a written marketing plan will make marketing decisions easier. This Fact Sheet describes how to use a simple form to develop a marketing plan quickly. This plan may be used as a record of past plans, thus allowing you to make modifications to improve the profit situation. This Facts Sheet discusses the games played in the market, market psychology, marketing decision emotions, and how to beat the market at its own game. This Facts Sheet shows that knowledge will improve your ability to make marketing decisions and raise your confidence in making these decisions.

Developing a Marketing Plan

Just the mention of developing a marketing plan causes some producers to cringe. Marketing plans are often considered as long, complex, and rigorous instruments that are excruciatingly painful to complete. Nothing could be further from the truth. A good marketing plan may be as simple as writing down that wheat will be sold at harvest.

We have created a simple form to be used to develop a marketing plan. All producers, large and small, should complete written marketing plans.

Section I: Marketing Tools

The first step in developing a marketing plan is to identify your emotions. Marketing is a psychological and emotional game. If you dread or worry about a decision, the odds of a mistake are higher. Worrying can also affect other decisions and tasks that must be completed.

Answering the question "Do you enjoy marketing?" will help you select which marketing tools to use. If you love marketing — look forward to selling wheat — a wider variety of tools may be successfully used. If you hate marketing, simple cash marketing strategies may be the best choice for a successful marketing program.

After evaluating your emotions about marketing, select the marketing tools. Just because you "love marketing" is no reason to use futures. No one should be involved with futures

contracts or futures options contracts without knowing how these tools work.

Using futures contracts and futures option contracts is like using welding equipment. Without proper training, a lot of material may be destroyed before something productive is produced. To learn the craft, start with scrap material or something you can afford to lose.

Some marketing tools must be used with other tools. For example, buying call option contracts is often used with cash selling, forward contracting, or futures contracts selling. Put option contracts are normally used by themselves.

To complete the tool selection, check yes or no in the appropriate blanks.

Section II. Government Program Impact

Participation in the government wheat program will influence the choice of marketing tools. Wheat that will be in the government program is covered by the deficiency payment. If wheat prices decline before harvest, the price decline is offset by an increase in the expected deficiency payment.

Forward contracting wheat before harvest changes the net price expectation. If prices decline, a forward contract increases the net price. If prices increase, a forward contract lowers the net price. Thus, with a forward contract and the government program, the direction of price risk is reversed. Pricing Government Program Wheat is discussed in OSU Facts No.520.

On the other hand, you may need to use a different set of marketing tools for wheat that is not covered by deficiency payments. Since deficiency payments are not involved in the net price, forward contracts would lock in a fixed price and the other marketing tools have the normal price impacts.

Section III. The Market Situation

First of all, specify the target date. Before harvest, the marketing period would be harvest. After harvest, the marketing period may be some month during the marketing year for the plan.

The cash price is only applicable if the wheat has been harvested and can be sold immediately. If the wheat is still in the field, the cash price is not relevant.

You can obtain forward contract prices by contacting

wheat buyers. You may not always find forward contract bids for the marketing period.

The expected futures hedge price is calculated by adding the expected basis to the appropriate futures contract price. If the expected basis is negative (which is normal in Oklahoma), the basis would be subtracted from the futures contract price. OSU Current Report 502 explains wheat basis use.

For example, if the marketing period is November, the KCBT December contract price is \$3.50, and the expected basis is a minus 35 cents, the expected hedge price would be \$3.15 ($\$3.50 - \0.35).

The minimum price resulting from buying a put option contract is determined by adding the basis and subtracting the put premium from the strike price. If a \$3.50 December put option costs \$0.15 and the expected basis is a minus 35 cents, the expected minimum price would be \$3 ($\$3.50 - \$0.35 - \0.15).

A minimum price could also be calculated by forward contracting (assume \$3.15 per bushel) and buying a \$3.50 December call option contract for \$0.15. The minimum price would be \$3 ($\$3.15 - \0.15).

The price for government program wheat is the sum of the market price and the deficiency payment. Thus, the expected program wheat price would be the expected selling price plus the expected deficiency payment per bushel.

Section IV. Price Outlook

Price outlook is a necessary part of making a marketing plan. Even if no formal price projections are made or obtained, price expectations are included in the decision. The only reason not to forward contract or sell harvested wheat today is because prices are expected to increase more than storage and interest costs.

One method to predict prices is to list the expected price, an upper range, and a lower range. Answering question IV D "Do the odds indicate that the price will be above or below your expected price?" will help you decide how much faith you have in the expected price.

This is also a trick question. The odds must be 50/50 that the price will be above or below the expected price. If the odds are that the price will be below the expected price, then the expected price is too high and should be adjusted until it represents a 50/50 chance of occurring.

Section V. Take Action

Question V A "Is your expected price above, below, or equal to what the market is offering?" establishes how your price projection compares with what the market is offering. If your projection is higher, you may not want to take any ac-

tion. If your projection is lower, you may want to sell some wheat.

Selling wheat has financial and psychological impacts. You may not be able to afford the luxury of waiting for higher prices. If you cannot financially afford lower prices, then your financial situation may dictate that you sell wheat in the cash market.

Psychologically, you may strongly want the chance to obtain a higher price. In this case, selling or forward contracting the wheat to protect the cash price may be combined with buying a call option contract. The call option would provide a method to obtain price increases in the futures market.

If the big concern is "not having the opportunity to sell at a higher price," you may want to hold the wheat in storage or sell the wheat and buy a call option contract. The second question in V B helps you identify the marketing tools that will fit your objectives and situation.

Part C of Section V begins the written marketing plan. These questions require a yes or no answer. If the answer is yes, then you need to specify the amount that will be sold via that tool. Justification should be written for both yes and no answers. This does not require a long answer. The reason for selling cash wheat may be "I do not know what wheat prices are going to do" or "I need the money" or "The price outlook is for lower prices."

The purpose for writing down the justifications is to force you to think fully about taking a specific action. Simple answers written down allow you to review your decision at a later date. Even if the action is to do nothing, you will learn by writing it down formally.

Section VI. Marketing Plan

You have already developed a marketing plan. This section assists you in writing out the plan in a concise manner. You may obtain most of the information from the previous sections.

Note that statement 6 of Section VI says "I am not going to price wheat at the present time. The decision to sell wheat will be evaluated on the following dates:_____". Sometimes, deciding not to take action is the best marketing plan. However, you should decide a time to reevaluate your marketing decision. If the market price is moving fast, tomorrow or next week may be the appropriate time. Sometimes, you may not want to reevaluate the plan for several months.

Question 7 is related to question 6. If you decide to take specific actions in the marketing plan, you should set a date to reevaluate the plan. It is important to review the marketing plan outcome at a later time to assist you in preparing the plan for next year.

Section VII. Wheat Marketing Plan Form

I. Required Information

A. Know yourself

1. Do you enjoy marketing?
 - a. yes — love it
 - b. indifferent
 - c. no — hate it

B. Based on "1," which marketing tools will you consider?

	Yes	No
1. cash sell	_____	_____
2. forward contract	_____	_____
3. put option contract	_____	_____
4. call option contract	_____	_____
5. futures contract	_____	_____
6. minimum price contract	_____	_____

II. Government Program Impact

A. How much wheat is covered by deficiency payments?

harvest for pay acres times program bushels
 bushels covered = _____ Ac x _____ Bu/Ac
 = _____ Bu

B. How much wheat is not covered by deficiency payments?

expected production minus bushels for pay.
 bu. not covered = _____ bu - _____ bu =
 _____ bu

III. What is the market offering?

- | | |
|------------------------------------|----------------------------|
| A. Cash price | _____ |
| B. contract | Forward
_____ |
| C. Futures hedge (futures + basis) | _____ |
| D. contract (strike + basis) | Put option
_____ |
| E. Program wheat (target price) | _____ |

IV. Price Outlook

- | | |
|--|-----------------------------|
| A. price | Expected
_____ |
| B. price | Upper
_____ |
| C. price | Lower
_____ |
| D. indicate that the price will be above or below your expected price? | Do the odds
_____ |

V. Take Action

- | | |
|--|-------------------------|
| A. expected price above, below, or equal to what the market is offering? | Is your
_____ |
|--|-------------------------|

B. Which will financially and psychologically hurt you most?

1. Selling wheat lower than today's price . _____
2. Not having the opportunity to sell wheat at a price above today's price _____

C. Do you want to:

- | | Yes | No |
|---|-------|-------|
| 1. Sell cash wheat?
How much? _____ | _____ | _____ |
| Why? _____
_____ | | |
| 2. Forward contract wheat?
How much? _____ | _____ | _____ |
| Why? _____
_____ | | |
| 3. Hedge any wheat?
How much? _____ | _____ | _____ |
| Why? _____
_____ | | |

4. Buy an option contract? _____
Which one? _____

Why? _____

5. _____ (bu, %) will be sold (cash, forward contact) and _____ call option contracts will be purchased with a strike price of _____ protecting _____ bushels. The established minimum price is \$ _____

VI. Marketing Plan

1. I will sell _____ (bu, %) of wheat for cash @ \$ _____

2. _____ (bu, %) will be forward contracted @ \$ _____

3. _____ (bu, %) will be hedged using a contract for an expected hedge price of \$ _____

4. _____ put option contracts will be purchased with a strike price of \$ _____ protecting _____ bushels. The established minimum price is \$ _____

6. I am not going to price wheat at the present time. The decision to sell wheat will be evaluated on the following dates: _____

7. This marketing plan will be reviewed (dates) _____

Oklahoma State University, in compliance with Title VI and VII of the Civil Rights Act of 1964, Executive Order 11246 as amended, Title IX of the Education Amendments of 1972, Americans with Disabilities Act of 1990, and other federal laws and regulations, does not discriminate on the basis of race, color, national origin, gender, age, religion, disability, or status as a veteran in any of its policies, practices, or procedures. This includes but is not limited to admissions, employment, financial aid, and educational services.

Issued in furtherance of Cooperative Extension work, acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Robert E. Whitson, Director of Cooperative Extension Service, Oklahoma State University, Stillwater, Oklahoma. This publication is printed and issued by Oklahoma State University as authorized by the Vice President, Dean, and Director of the Division of Agricultural Sciences and Natural Resources and has been prepared and distributed at a cost of 20 cents per copy. 0507