



## ***Sizing Up Your Marketing Advisory Program***

***Scott H. Irwin and Darrel L. Good***

***December 2004***

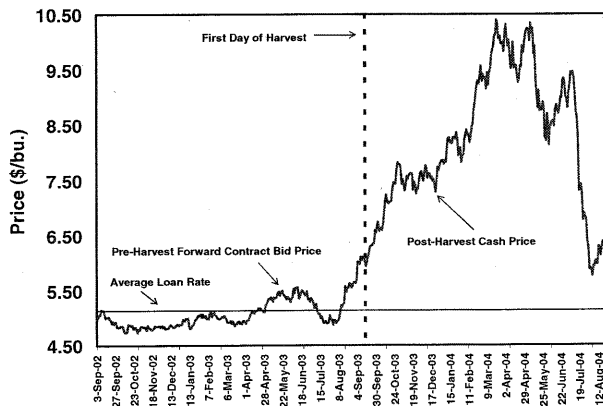


## ***Why is Crop Marketing so Frustrating to Farmers?***

- Crop prices are extremely volatile
  - Within year
  - Year-to-year
- Crop prices are hard to anticipate or forecast
  - Numerous price making forces that interact in a highly complex fashion
  - Acreage, yield, trade, livestock numbers, Asian RUST, policy,...



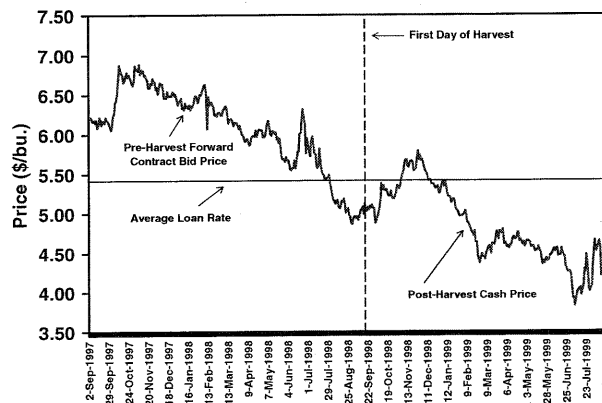
## Daily Soybean Prices for the 2003 Crop Year, Central Illinois



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## Daily Soybean Prices for the 1998 Crop Year, Central Illinois



4



## ***Many Farmers Turn to Market Advisory Services for Help***

- Services are thought to process market information more rapidly and efficiently than farmers to determine the most appropriate marketing decisions
- Surveys document advisory service popularity among farmers over the last 25 years
- Advisory services have substantial influence on the use of forward pricing by farmers

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## ***Do I Really Need an Advisory Program?***

- To answer this question you first need the facts on your own marketing performance
- Next you need a framework for evaluating your marketing performance

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## ***Evaluation of Crop Marketing Performance***

- Bottom Line: Compare your price received for a crop to the price offered by the market
- Two important comparisons
  - Top third of price range
  - Average price

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## ***Quick Approach to Benchmarking***

1. Assemble data to compute marketing weights each month over the 24-month pricing window for a crop year
  - Account for forward, futures and options sales
2. Multiply weights by monthly average prices
  - Prices should be adjusted for storage costs
  - Prices should be for a comparable area, e.g., central Illinois
3. Add speculative futures/options gains or losses
4. Include your weighted-average LDP/MLG gains??
5. Compare to the 24-month average cash price
  - Adjusted for storage costs
  - Include LDP/MLGs??

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## ***Complete Approach to Benchmarking***

1. Assemble records for a given crop: bushels sold, cash and forward sales, futures and options transactions
2. Adjust each sale for moisture and quality discounts; sale prices should be stated on a No.2 basis for corn and No. 1 basis for soybeans
3. Compute the weighted-average cash price received
4. Subtract physical storage charges on all bushels stored post-harvest
5. Subtract interest opportunity cost on all bushels stored post-harvest
6. Compute profit/loss on all futures and options transactions
7. Add LDP and/or marketing loan benefits??

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## ***Compare Your Average Price Received to a Realistic Benchmark***

Last Year? \_\_\_\_\_

3 Year Average? \_\_\_\_\_

5 Year Average? \_\_\_\_\_

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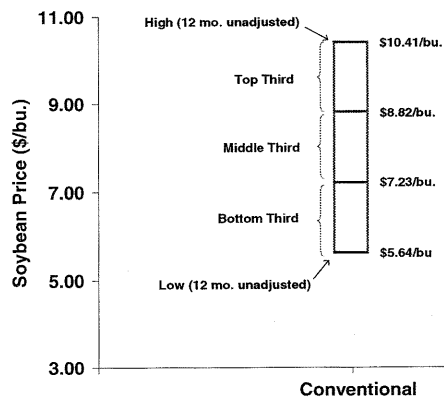
## ***Conventional Approach to Comparison of Crop Year Price Ranges***

- Post-harvest cash prices only
- Range of prices = high - low
- Divide range into top third, middle third, and bottom third
- No adjustment for carrying costs

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## ***Conventional Measurement of Price Range for Soybeans, 2003 Crop Year, Central Illinois***

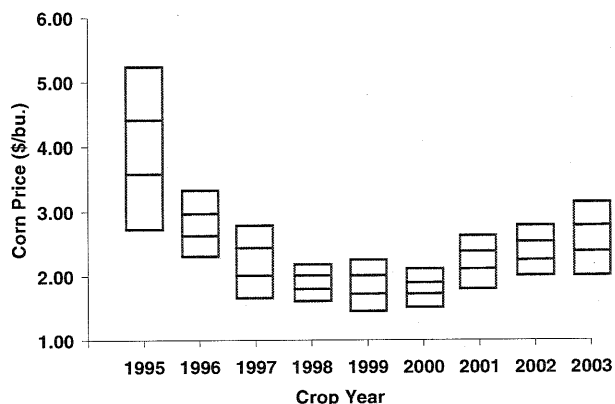


Note: LDP/MLG benefits not included.

12



### ***Conventional Measurement of Price Range for Corn, 1995-2003 Crop Years, Central Illinois***

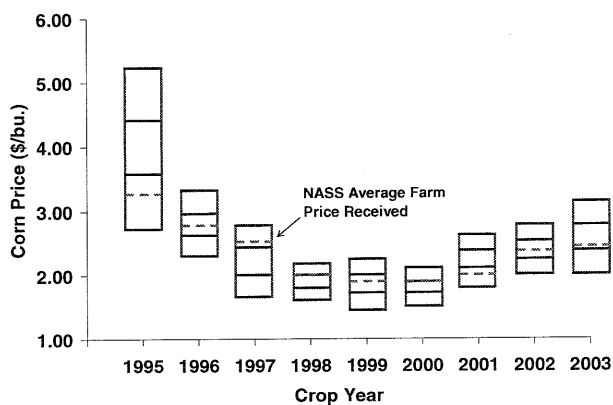


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### ***Conventional Measurement of Price Range for Corn, 1995-2003 Crop Years, Central Illinois***

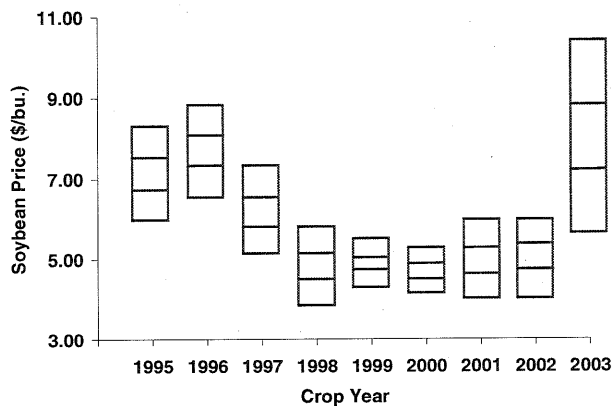


Note: LDP/MLG benefits not included.

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### Conventional Measurement of Price Range for Soybeans, 1995-2003 Crop Years, Central Illinois

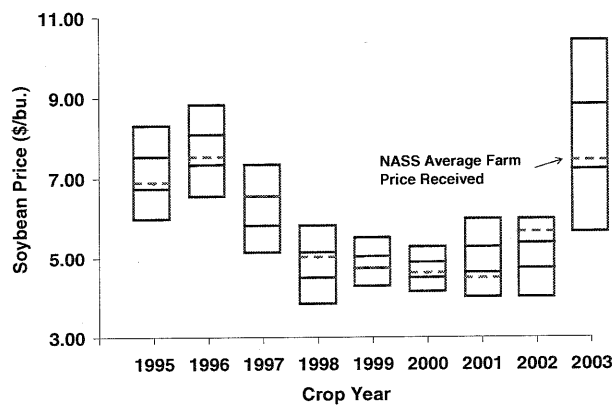


Note: LDP/MLG benefits not included.

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### Conventional Measurement of Price Range for Soybeans, 1995-2003 Crop Years, Central Illinois



Note: LDP/MLG benefits not included.

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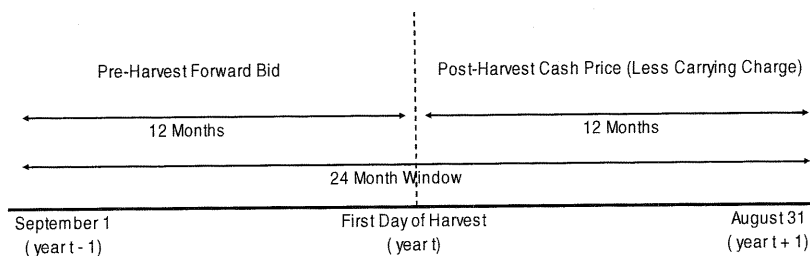
## ***Better Approach to Comparison of Crop Year Price Ranges***

- Pre- and post-harvest cash prices included (two-year marketing window)
- Adjustments for carrying costs (interest rate + commercial storage)
- Thirds based on equal number of days in each price range (time-weighted)

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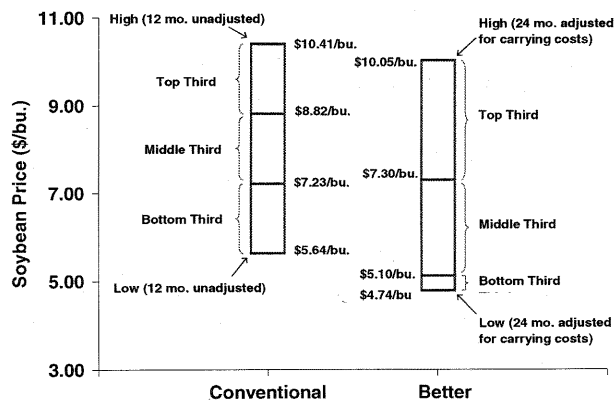
## ***24-Month Marketing Window for Corn and Soybeans***



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## Conventional and Better Measurements of Price Range for Soybeans, 2003 Crop Year, Central Illinois

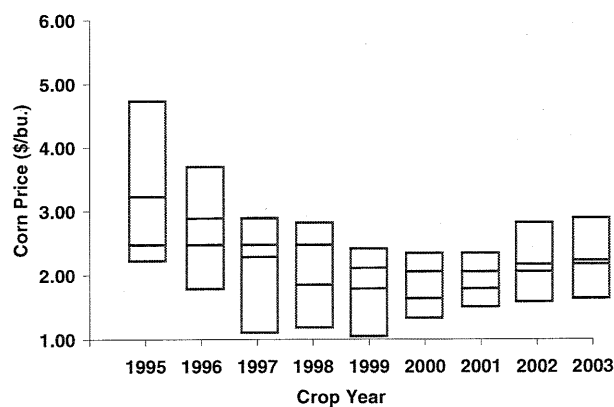


Note: LDP/MLG benefits not included.

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## Price Range for Corn, 1995-2003 Crop Years, Central Illinois

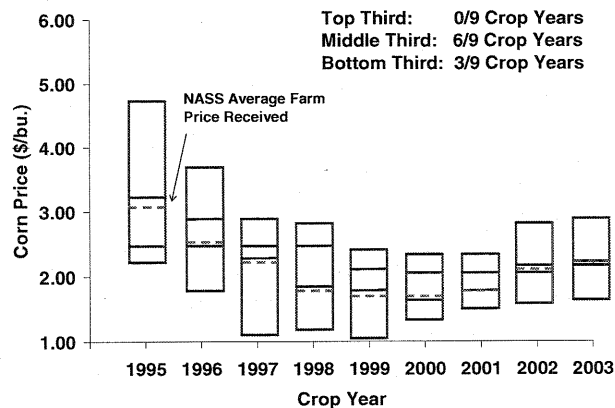


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## Price Range for Corn, 1995-2003 Crop Years, Central Illinois

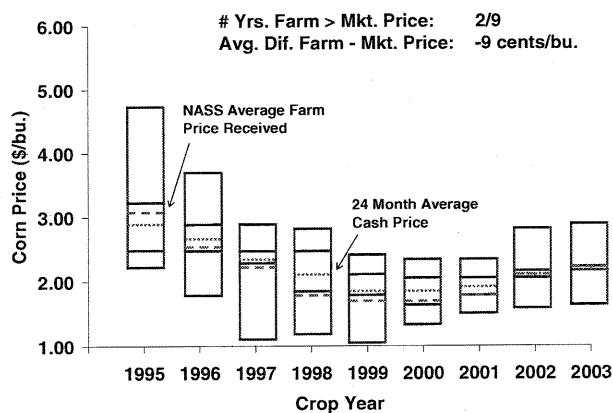


Note: LDP/MLG benefits not included.

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## Price Range for Corn, 1995-2003 Crop Years, Central Illinois

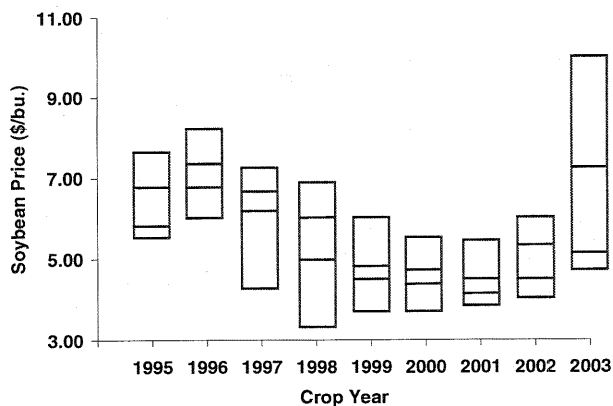


Note: LDP/MLG benefits not included.

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## Price Range for Soybeans, 1995-2003 Crop Years, Central Illinois

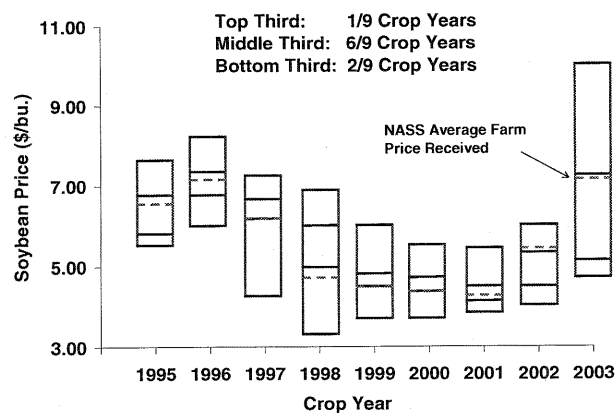


Note: LDP/MLG benefits not included.

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## Price Range for Soybeans, 1995-2003 Crop Years, Central Illinois

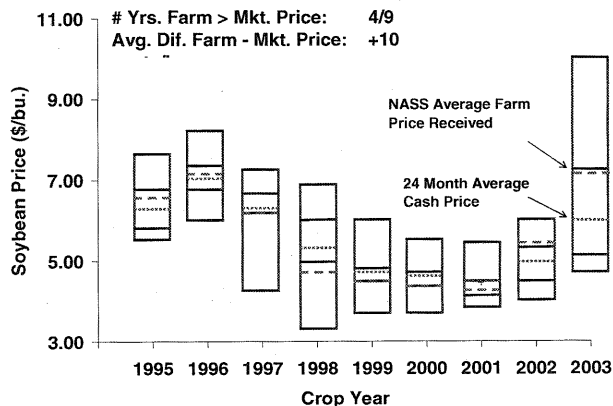


Note: LDP/MLG benefits not included.

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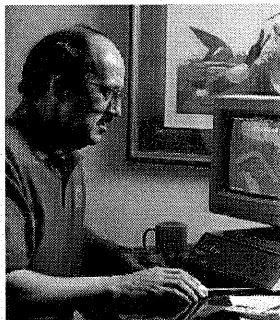


## Price Range for Soybeans, 1995-2003 Crop Years, Central Illinois



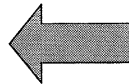
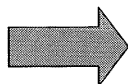
Note: LDP/MLG benefits not included.

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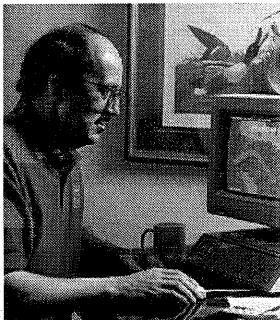
### WHAT CAN DTN AgDaily DO FOR YOU?

Today, there are two ways for producers to increase their bottom-line profit: increase production efficiency or market more effectively. American farmers and ranchers are already producing at record levels, but USDA statistics indicate farmers sell two-thirds of their crop in the bottom one-third of the crop's annual price range.



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### ***Key Factors in Selecting a Marketing Advisor Program***

- Pricing performance
  - Goal: high price, low risk
- Consistency of performance
  - Goal: consistently superior pricing performance
- Marketing philosophy/style
  - Goal: Match your approach to marketing
- Communication
  - Goal: Well-written, concise, accurate

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## ***Types of Advisory Service Programs***

- Basic program: provides subscribers with market analysis, information and "generic" marketing recommendations
- Customized program: provides marketing recommendations that are tailored to individual client needs, direct access to market analysts, in addition to basic services

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## ***Cost of Advisory Service Programs***

- Basic programs:
  - Fixed annual subscription fee
  - Generally ranges from \$150-\$600/year
- Customized programs:
  - Subscription fee based on volume of production
  - Generally ranges from 3-5¢/bushel

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## ***Agricultural Market Advisory Service Project (AgMAS)***

- In 1994, the AgMAS Project was started at the University of Illinois
- Goal of providing unbiased and rigorous performance evaluation
- Evaluate performance in marketing corn, soybeans, wheat, and hogs

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## ***AgMAS Data Collection***

- Tracking about 25-35 "basic" advisory programs per year since September 1994
- Paid subscriptions obtained for each service
- Recommendations recorded in "real-time"
- No survivorship or hindsight bias
- Data available for corn and soybeans for 1995-2003 crops

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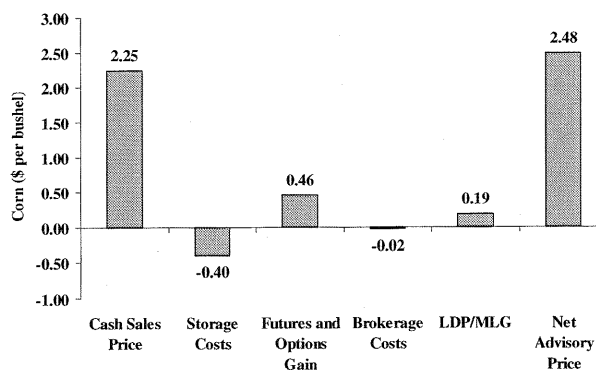
## ***Simulation of Advisory Service Performance***

- Simulation for central Illinois farm
- Two-year marketing window
- Transactions applied to expected or actual yield per acre
- Cash sales are discounted for interest and storage charges (commercial)
- Net advisory prices are stated in harvest equivalent terms

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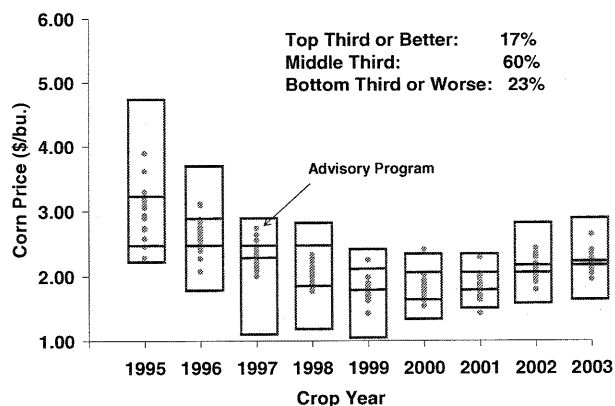
## ***Computation of Net Advisory Price***



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## Performance of Advisory Programs in Corn, 1995-2003 Crop Years, Central Illinois

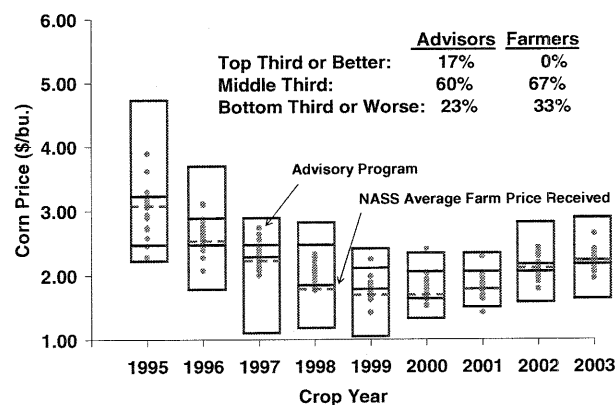


Note: LDP/MLG benefits not included.

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## Performance of Advisory Programs in Corn, 1995-2003 Crop Years, Central Illinois

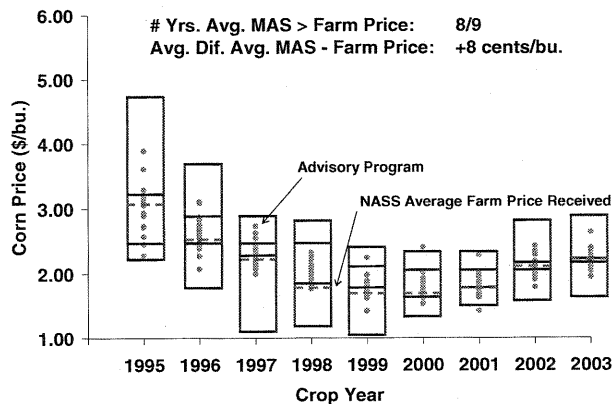


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## Performance of Advisory Programs in Corn, 1995-2003 Crop Years, Central Illinois

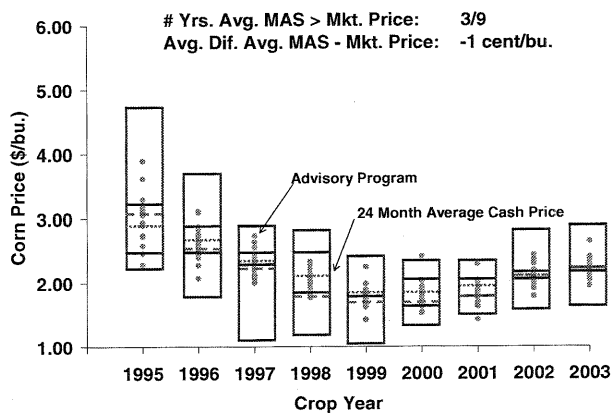


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## Performance of Advisory Programs in Corn, 1995-2003 Crop Years, Central Illinois

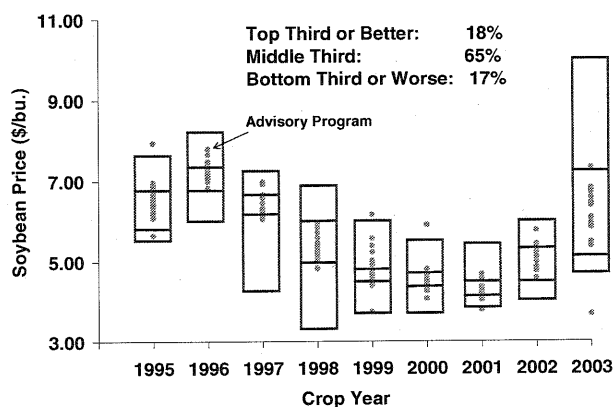


Note: LDP/MLG benefits not included.

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## Performance of Advisory Programs in Soybeans, 1995-2003 Crop Years, Central Illinois

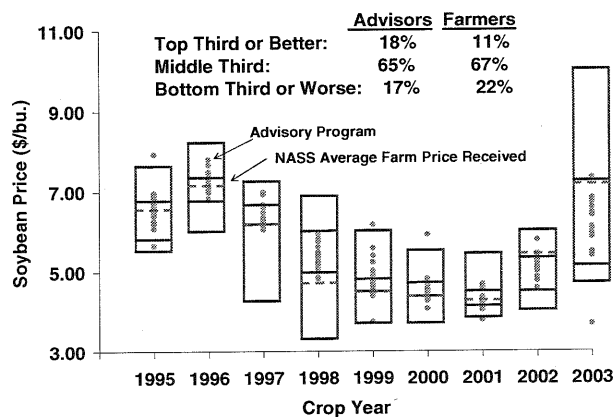


Note: LDP/MLG benefits not included.

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## Performance of Advisory Programs in Soybeans, 1995-2003 Crop Years, Central Illinois

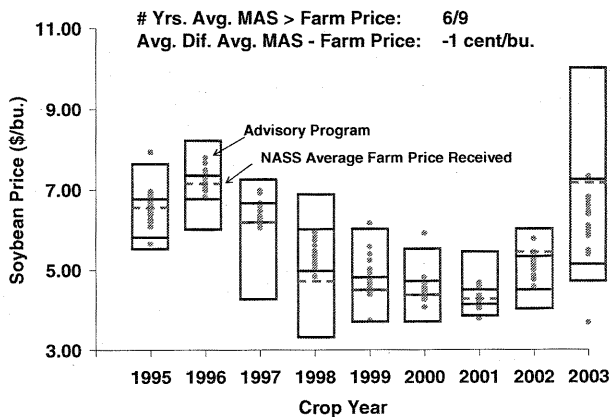


Note: LDP/MLG benefits not included.

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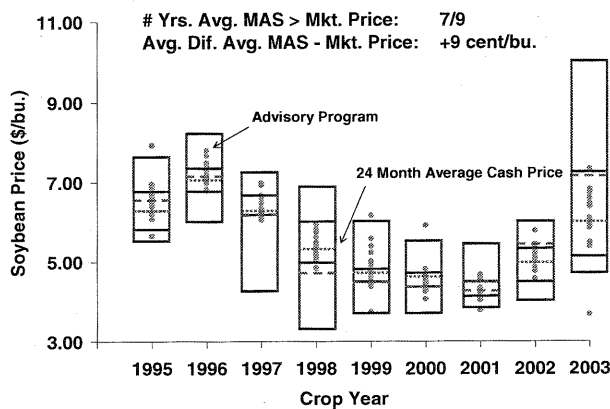


Note: LDP/MLG benefits not included.

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## Performance of Advisory Programs in Soybeans, 1995-2003 Crop Years, Central Illinois

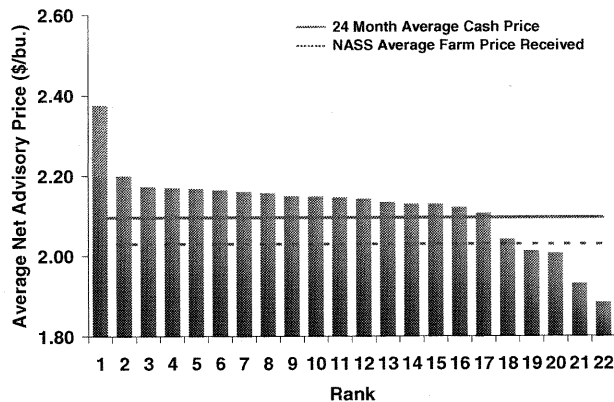


Note: LDP/MLG benefits not included.

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### ***Five-Year Average Performance of 22 Advisory Programs in Corn, 1999-2003 Crop Years, Central Illinois***

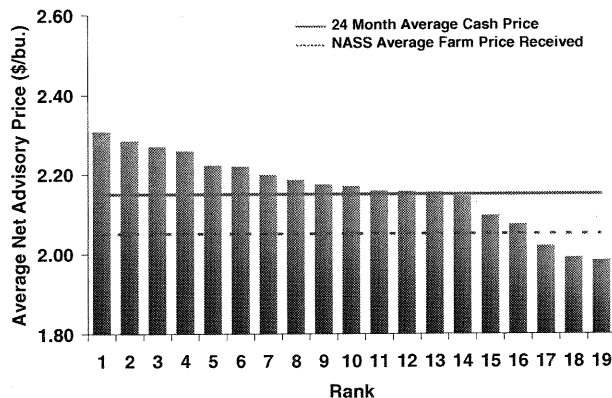


Note: LDP/MLG benefits included.

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### ***Seven-Year Average Performance of 19 Advisory Programs in Corn, 1997-2003 Crop Years, Central Illinois***

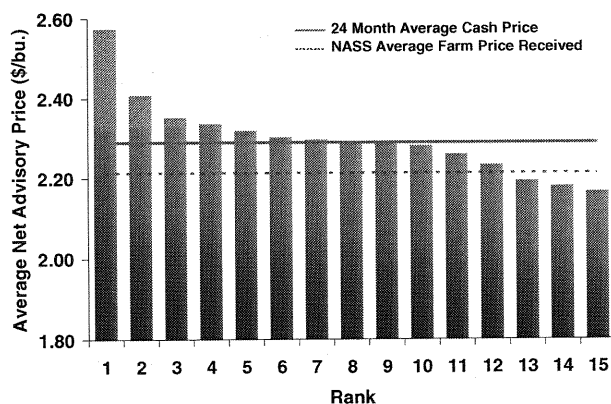


Note: LDP/MLG benefits included.

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### ***Nine-Year Average Performance of 15 Advisory Programs in Corn, 1999-2003 Crop Years, Central Illinois***

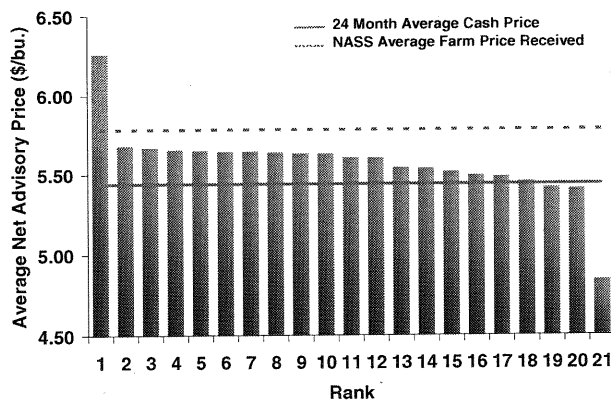


Note: LDP/MLG benefits included.

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### ***Five-Year Average Performance of 21 Advisory Programs in Soybeans, 1999-2003 Crop Years, Central Illinois***

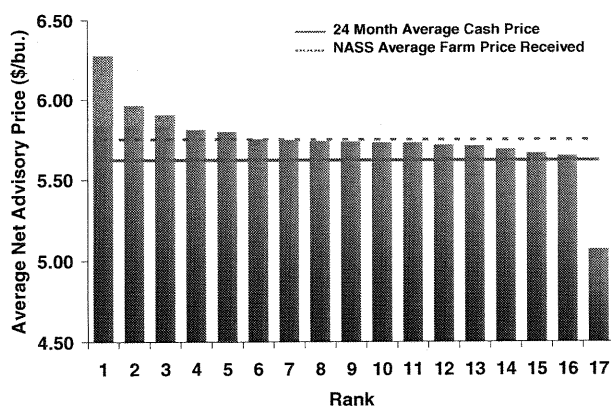


Note: LDP/MLG benefits included.

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### ***Seven-Year Average Performance of 17 Advisory Programs in Soybeans, 1999-2003 Crop Years, Central Illinois***

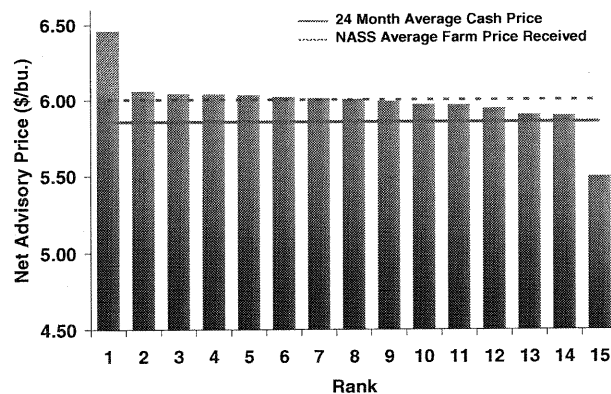


Note: LDP/MLG benefits included.

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### ***Nine-Year Average Performance of 15 Advisory Programs in Soybeans, 1999-2003 Crop Years, Central Illinois***



Note: LDP/MLG benefits included.

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## ***Lessons Learned About Pricing Performance***

- Better for soybeans than corn when compared to market
- Better for corn than soybeans when compared to farmers
- Overall, modest ability to beat the market or farmers
- Large range in performance across programs
- A few programs beat the market and farmers based on average prices

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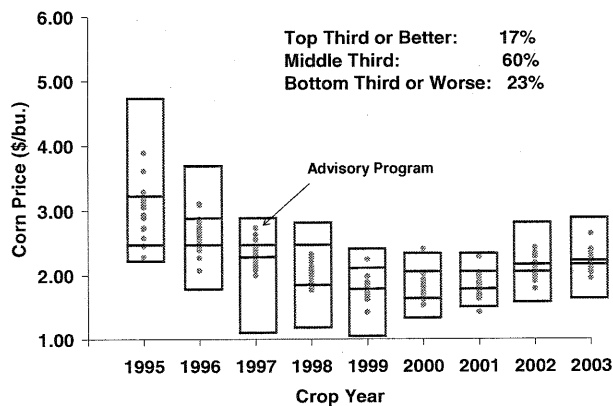
## ***Consistency of Advisory Service Performance***

- Consistency evaluated two ways
- Absolute consistency
  - How consistently do programs land in the top third of the price range over time?
- Relative consistency
  - How consistently are programs ranked in the top and bottom five of all advisory programs?

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## ***Performance of Advisory Programs in Corn, 1995-2003 Crop Years, Central Illinois***

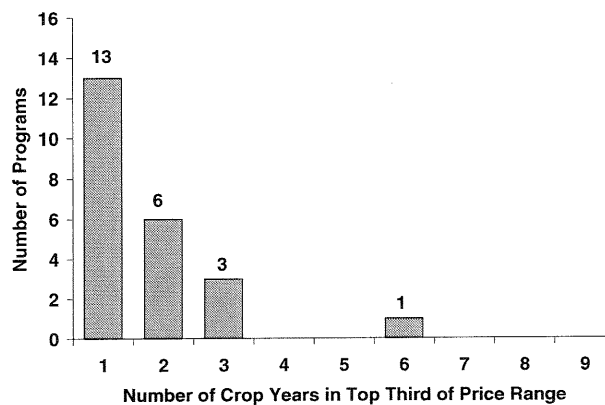


Note: LDP/MLG benefits not included.

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## ***Distribution of Appearances in the Top Third of the Price Range for Corn, 1995-2003 Crop Years***

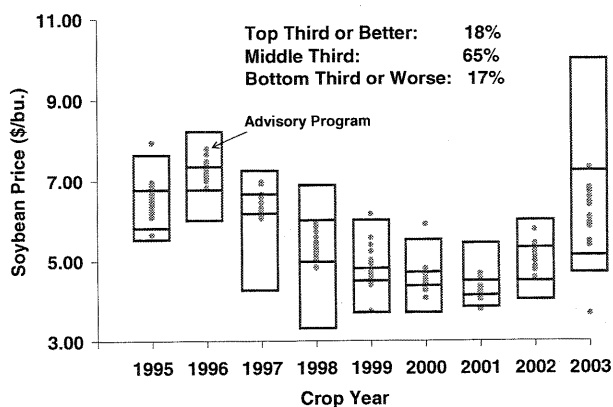


Note: LDP/MLG benefits not included.

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## Performance of Advisory Programs in Soybeans, 1995-2003 Crop Years, Central Illinois

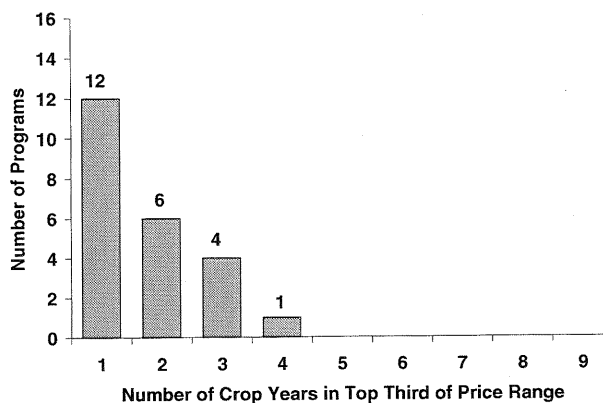


Note: LDP/MLG benefits not included.

53



## Distribution of Appearances in the Top Third of the Price Range for Soybeans, 1995-2003 Crop Years

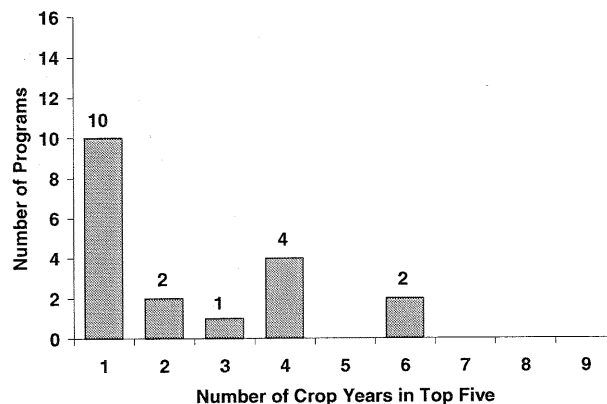


Note: LDP/MLG benefits not included.

54



### ***Distribution of Appearances in the Top 5 Ranked Advisory Programs for Corn, 1995-2003 Crop Years***

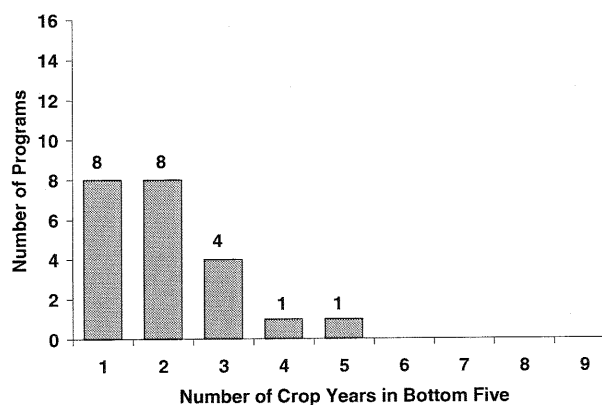


Note: LDP/MLG benefits not included.

55



### ***Distribution of Appearances in the Bottom 5 Ranked Advisory Programs for Corn, 1995-2003 Crop Years***

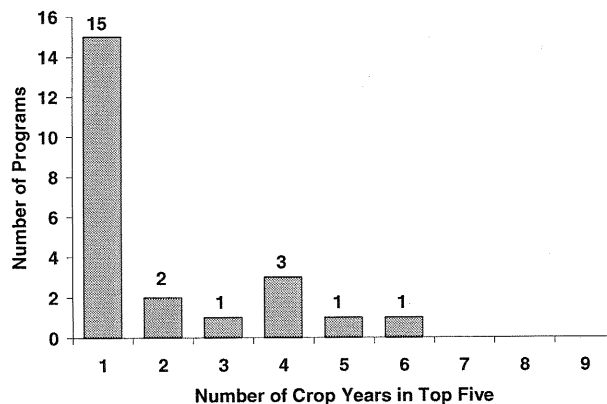


Note: LDP/MLG benefits not included.

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### ***Distribution of Appearances in the Top 5 Ranked Advisory Programs for Soybeans, 1995-2003 Crop Years***

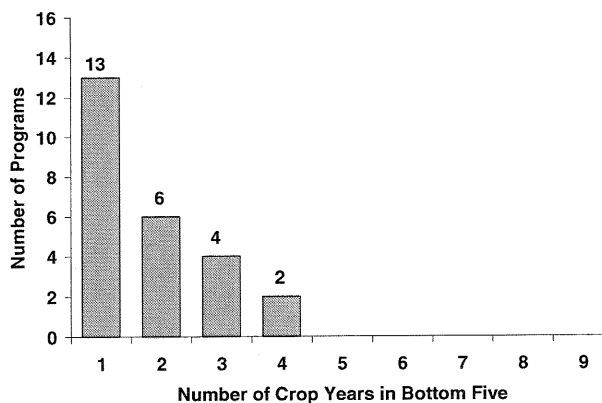


Note: LDP/MLG benefits not included.

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### ***Distribution of Appearances in the Bottom 5 Ranked Advisory Programs for Soybeans, 1995-2003 Crop Years***



Note: LDP/MLG benefits not included.

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### ***Lessons Learned About Consistency***

- Available evidence suggests past price performance does not predict future price performance
- Similar to findings for stock mutual funds
- Implication: Choosing an advisory service based on past "hot" performance is not likely to be successful

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### ***Marketing Philosophy/Style***

- Every individual farmer has a marketing philosophy, or style, that is unique
- Types of styles range from:
  - Conservative and risk-minimizing
  - Active and risk-seeking
- Our research shows that match between farmer and advisory service style is second in importance only to pricing performance in selecting a service

60



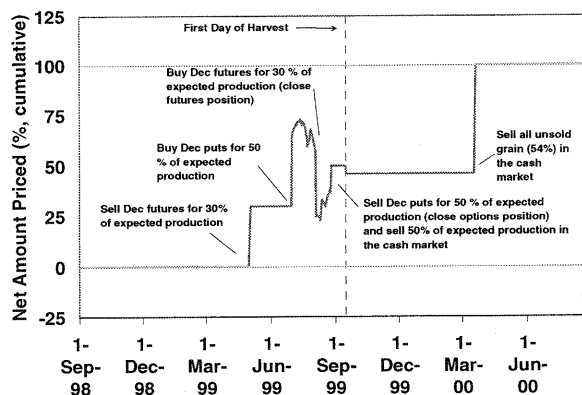
## Market Advisory Program Styles

- It is well-understood that marketing style differs substantially across advisors
  - Websites and promotional literature for advisors discuss approach to marketing
- A *Top Producer* article described styles of well-known advisors as:
  - Banker, Race Car Driver, Astronaut, Sprinter, and Insurance Agent
- Difficult to know how accurate these labels are or what they mean!

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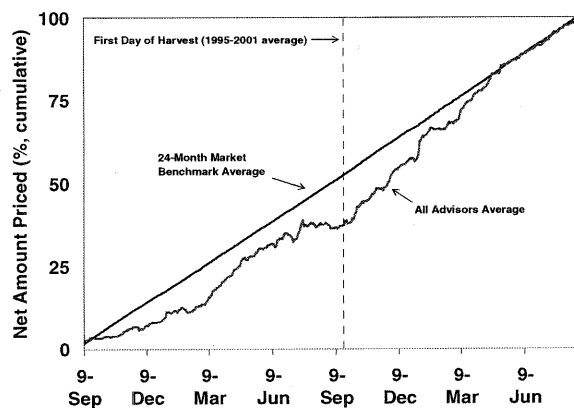
## Example of the Construction of an AgMAS Marketing Profile



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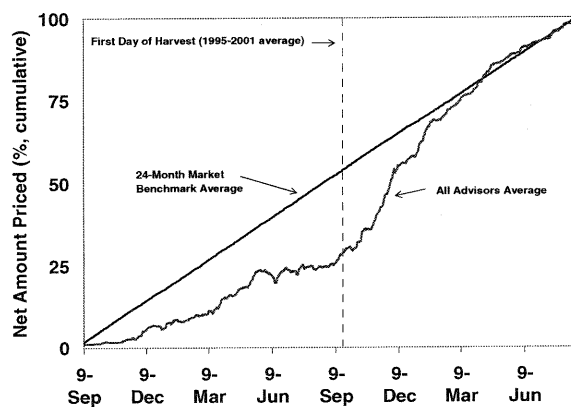
### ***Average Marketing Profile for All Advisory Programs in Corn, 1995-2001 Crop Years***



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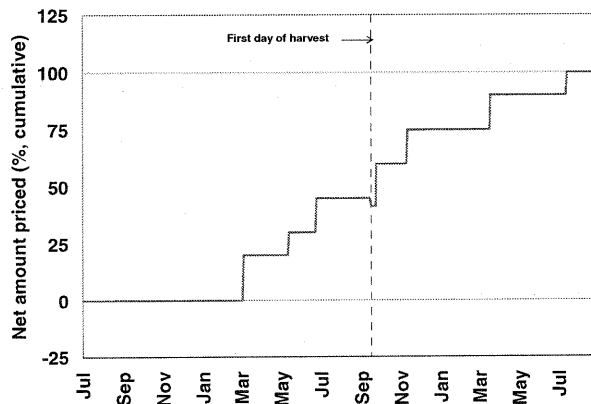
### ***Average Marketing Profile for All Advisory Programs in Soybeans, 1995-2001 Crop Years***



64



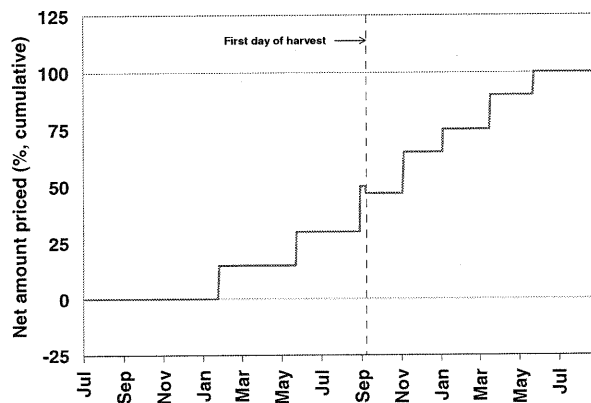
### ***Marketing Profile for a Conservative Advisory Program in Corn, 1999 Crop Year***



65



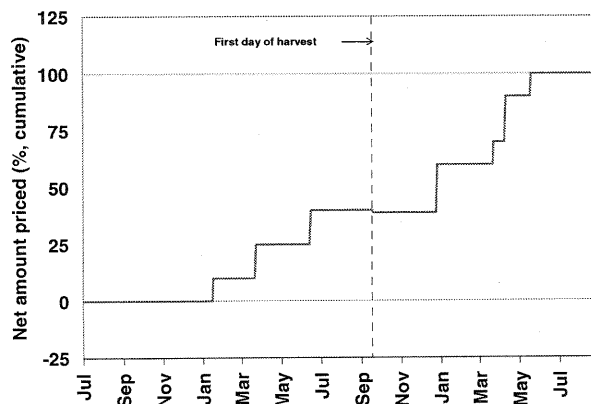
### ***Marketing Profile for a Conservative Advisory Program in Corn, 2000 Crop Year***



66



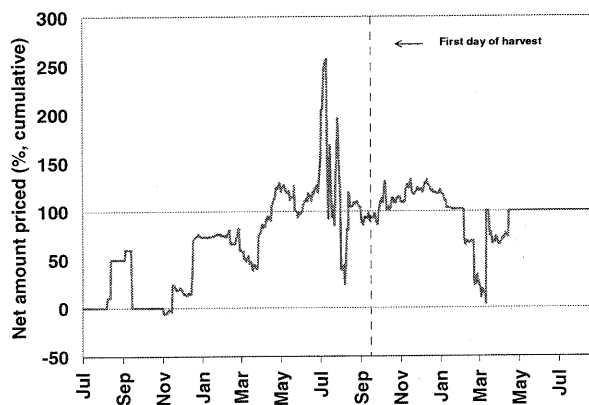
### ***Marketing Profile for a Conservative Advisory Program in Corn, 2001 Crop Year***



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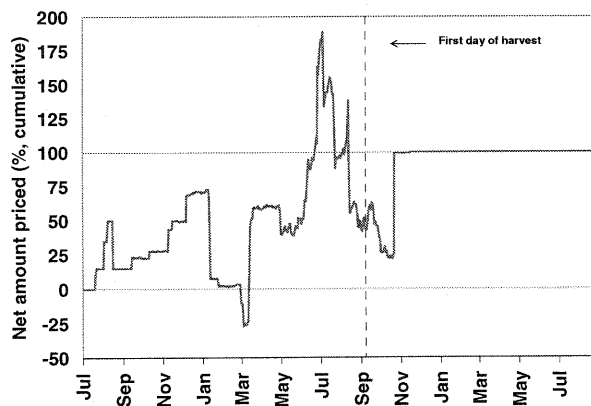
### ***Marketing Profile for an Active Advisory Program in Corn, 1999 Crop Year***



68



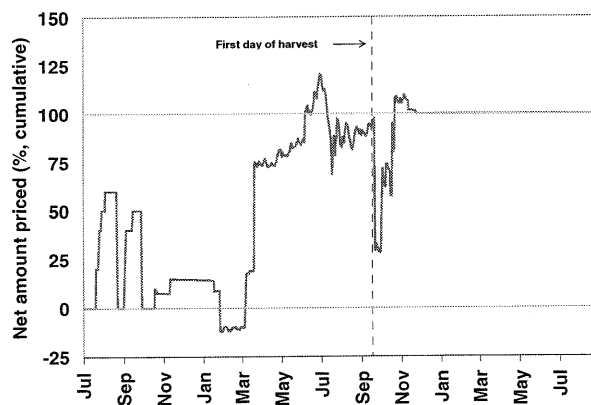
## Marketing Profile for an Active Advisory Program in Corn, 2000 Crop Year



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## Marketing Profile for an Active Advisory Program in Corn, 2001 Crop Year



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### ***Advisory Program Groups in Corn Based on Degree of Activeness, 1997-2001 Crop Years***

	<b>Group I: Conservative</b>	<b>Group II: Active</b>	<b>Group III: Very Active</b>
<b>Share of Programs</b>	74%	16%	11%
<b>Average Price</b>	\$2.12/bu.	\$2.14/bu.	\$2.30/bu.
<b>Standard Deviation</b>	\$0.19/bu.	\$0.18/bu.	\$0.36/bu.

Note: LDP/MLG benefits included.

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### ***Advisory Program Groups in Soybeans Based on Degree of Activeness, 1997-2001 Crop Years***

	<b>Group I: Conservative</b>	<b>Group II: Active</b>	<b>Group III: Very Active</b>
<b>Share of Programs</b>	59%	18%	24%
<b>Average Price</b>	\$5.64/bu.	\$5.91/bu.	\$6.06/bu.
<b>Standard Deviation</b>	\$0.40/bu.	\$0.56/bu.	\$0.54/bu.

Note: LDP/MLG benefits included.

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## ***Lessons Learned About Marketing Styles***

- Marketing styles vary dramatically across advisors
- Some evidence that more active programs generate higher prices
  - Tends to come at the cost of higher risk
- Implications:
  - Do not focus solely on a program's net price
  - Match your risk tolerance to marketing style of the advisor

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## ***Key Factors in Selecting a Marketing Advisor Program***

- Pricing performance
  - Goal: high price, low risk
- Consistency of performance
  - Goal: consistently superior pricing performance
- Marketing philosophy/style
  - Goal: Match your approach to marketing
- Communication
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## ***AgMAS Performance Profile Tool***

Advisory Service	Credits
Make the selections for your search:	
<input type="text" value="Agri-Visor Aggressive Hedge"/>	
<input type="text" value="Corn"/>	
<input type="button" value="Submit"/>	
<small>Last Updated: 11/04/2004</small>	

Coming soon at:  
<http://www.farmdoc.uiuc.edu/agmas!>

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## ***New Generation Grain Marketing Contracts***

- Contracts follow prescribed rules for generating sales
- Goal is to achieve a price near or above the average price offered by the market over a given time
- Interest in new generation contracts has increased in recent years

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### ***Three Basic Types of New Generation Contracts***

1. Automated pricing rules
2. Managed hedging
3. Combination of the first two

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### ***Contacting the AgMAS Project***

- Office Address:  
406 Mumford Hall  
1301 West Gregory Drive  
University of Illinois  
Urbana, IL 61801
- Phone: (217)333-2792
- Email: [agmas@uiuc.edu](mailto:agmas@uiuc.edu)
- Website:  
<http://www.farmdoc.uiuc.edu/agmas>

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## ***DISCLAIMER***

The advisory service marketing recommendations used in this research represent the best efforts of the AgMAS Project staff to accurately and fairly interpret the information made available by each advisory service. In cases where a recommendation is vague or unclear, some judgment is exercised as to whether or not to include that particular recommendation or how to implement the recommendation. Given that some recommendations are subject to interpretation, the possibility is acknowledged that the AgMAS track record of recommendations for a given program may differ from that stated by the advisory service, or from that recorded by another subscriber. In addition, the net advisory prices presented in this report may differ substantially from those computed by an advisory service or another subscriber due to differences in simulation assumptions, particularly with respect to the geographic location of production, cash and forward contract prices, expected and actual yields, storage charges and government programs.

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## ***Thank You!***

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