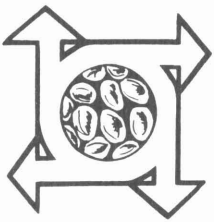
L-1465



Developing a Soybean Marketing Plan

TEXAS AGRICULTURAL EXTENSION SERVICE
THE TEXAS A&M UNIVERSITY SYSTEM
Daniel C. Pfannstiel, Director, College Station, Texas

Developing a Soybean Marketing Plan

The old adage that "a farmer has to take whatever the buyer wants to give for his products" doesn't have to be true any more—especially for soybean producers. Today's soybean farmer has many marketing alternatives available to him. He can *market* his beans and not just *sell* them.

By developing an intelligent, calculated marketing plan, the soybean producer can assure himself of a reasonable profit—even before he puts his seed in the ground.

The Increasing Need for Marketing Savvy

More and more, American agriculture is moving away from strict government regulations, controls and subsidies. Farmers in general—and soybean producers in particular—are faced with widely fluctuating market demand. Complicating the soybean marketing situation today is our increasing dependence on foreign buyers. Over 50 percent of America's soybeans are now being exported, either as raw beans or soybean products. Since foreign buyers are reacting constantly to soybean supplies and prices around the world, it's difficult to predict foreign demand for American soybeans year to year.

American agriculture also has what appears to be an endless and constantly growing appetite for credit these days. It's especially easy for young farmers just getting started to extend their credit to the absolute limit. In this precarious financial environment, today's soybean producer simply has too much at stake to rely on the whims of the market at harvest. And chances are his lender won't let him. Today's lender wants to see a well-thought-out marketing plan before he advances production money.

It's becoming harder also for soybean producers to rely on historical information to help them anticipate soybean demand and prices. Seasonal price patterns and historical performance of the markets still help, but they require constant adjustment as worldwide conditions change.

The result of all these factors is less price certainty and more risk for soybean producers. To survive and make money, producers must sharpen their understanding of the market and the marketing alternatives they might use.

The Importance of Planning Ahead

Just as a departing vacationer, the soybean producer should have his destination, and his route, firmly in mind before he starts planning his next crop. Determining a marketing objective should be the first step of production. By studying market predictions and anticipated market conditions, a producer can pick up valuable clues that will help him in his production planning. November soybean futures and December corn quotes are an early tip-off, for instance, to what the market feels about the relative prices for upcoming soybean and corn crops.

When a producer plants a crop with his marketing scheme well in mind, he is beginning to get away from "selling" and is developing his skill at "marketing."

Selling

- Quality or grade easiest produced
- Most convenient time
- Most convenient place
- Whatever price offered

Marketing

- Quality or grade with most profit potential
- Most profitable time
- Most profitable place
- Some control over price and profit

When a producer has a complete production and marketing plan, he can make the best management decisions every step of the way. Then, and only then, can he begin to produce with *profit* as his objective, not just *price*.

Factors That Affect Soybean Prices

During the past 40 years, the soybean industry has had a minimum of government interference with the pricing system. Freely moving prices have guided production, distribution and consumption of soybeans and soybean products.

The soybean market is worldwide, and prices are tied together at all times by differences in time, form

---

Permission to reproduce this material was granted by the North Carolina Agricultural Extension Service. The author of this publication is T. Everett Nichols, Jr., extension economist, grain marketing, North Carolina State University.

and space dimensions, as illustrated by the daily price quotations of the futures market. Price differences between each of the futures months reflect returns to storage over time. Adding the price of soybean meal to the price of soybean oil quoted in the futures market represents the value of the products processed from soybeans and reflects the differences in handling and processing costs over raw bean prices. Transportation charges between markets reflect the cost of products over space and influence prices paid or received for the commodity.

For example, in a surplus grain producing area such as Cincinnati, Ohio, market price for soybeans is the Chicago price *less* cost of transportation to the central market (Chicago). But in a deficit grain producing area such as Gainesville, Georgia, market price is the Chicago price *plus* the cost of transportation from the central market.

Two causes are generally associated with the variation in soybean prices over time: (1) a change in supply and use by geographic areas, or (2) imperfections in the information system which helps establish price. U. S. government grades and the market news service help improve communications and decrease the imperfections in the soybean pricing system.

In any particular year, the prices of soybeans, soybean meal and soybean oil result from the interplay of supply and demand forces. There are multiple market outlets—both domestic and foreign—that compete for available beans, meal and oil.

The size of the commercial supply of soybeans each year and the total market demand for beans largely determine the soybean prices received by farmers. Soybean prices at the farm level, then, are a composite of the prices for meal and oil—both domestic and foreign —and the influence of the factors affecting the cost of crushing and handling.

Establishing a Marketing Objective

To do a good job of marketing, a soybean producer must have a marketing objective. He first must decide what crops to produce and how much of each. Then if he's in an extremely solid financial position and loves to gamble, he may want to take his chances at harvest or hold his production in storage and try to sell when he figures prices are highest. If he wants to store his crops and be sure of a good profit, he may plan to pick an opportune time and hedge his stored crops in the futures market. If he doesn't have storage space, he may want to "lock in" a profit on his growing crops by forward contracting or hedging part of his production. Whatever his objective, every soybean producer should have one before he plants his crop each year.

Figuring Your Costs

You can't determine your anticipated profit until you first determine your production costs. But once you've figured your costs, you can decide how many acres of beans to grow relative to corn, say, and you can watch cash contract offerings and futures prices and know when to "lock in" a satisfactory price.

To arrive at an "asking price" that you would be willing to accept for your soybeans, you should work through a production budget. Total all variable and fixed costs, then add some return to management and profit. Figure an asking price per bushel that you consider reasonable and profitable.

Evaluating Your Marketing Alternatives

In planning your soybean marketing program, you can choose to (1) gamble and price your crop when you deliver it either at harvest or out of storage, or (2) forward price your crop by using cash contracts or hedging your beans in the futures market:

The cash market is simply the market where most producers normally sell—your local grain elevator for soybeans.

Cash Market Advantages

- It's simple
- You get current price
- No margin money required

Cash Market Disadvantages

- You seldom get highest price
- It's a high risk market
- It's difficult to plan production

If you operate entirely on the cash market, you never know whether or not you will make any money until your crop is produced. Even if you store your beans for later sale, you are still speculating unless you have forward priced your crop with cash contracts or by hedging in the futures market.

Cash contracts let you know in advance whether you will make a profit or loss on your crop:

Cash Contract Advantages

- Exact price known in advance
- No margin money required
- Simpler than hedging in futures market

Cash Contract Disadvantages

- You have reduced flexibility
- You must deliver at contract price
- Price is usually below futures price

The futures market also lets you price your crop before delivery. You can hedge your crop before it is

planted, while it is growing or while it is in storage. Since many buyers and sellers are involved in the futures market, prices are usually pushed to their highest level. When you are ready to sell (deliver) your beans, you simply buy back your futures contract and sell your beans on your local cash market.

Futures Market Advantages

- You know price range
- You have maximum flexibility
- Competition establishes price

Futures Market Disadvantages

- Requires much understanding
- Requires margin money
- Requires difficult decisions

Learning to use the futures market can give you maximum satisfaction from your soybean marketing. And if used properly, it can almost always guarantee you an acceptable price for your crop every year.

Summary

Marketing your soybean crop for the best possible return often depends upon the marketing alternative that you adopt. You no longer have to sit back and just passively accept any price that the soybean market offers you at harvest or when you decide to take your crop out of storage. You have many marketing alternatives available to you today that allow you to plan your soybean marketing intelligently.

You may choose to:

- Sell the crop at harvest.
- Contract for sale before the crop is planted.
- Contract after the crop is planted, booking part of the crop at a time.
- Sell part of the crop at harvest and store the remainder for sale the following year.
- Store and sell at intervals over the 6 or 8 months following harvest.
- Hedge the crop through the use of futures.
- A combination of the above options.

The option that you choose and the marketing program that you develop and follow should always fit into your overall income tax situation and farm plan.

Educational programs conducted by the Texas Agricultural Extension Service serve people of all ages regardless of socio-economic levels, race, color, sex, religion or national origin.

Cooperative Extension Work in Agriculture and Home Economics, The Texas A&M University System and the United States Department of Agriculture cooperating. Distributed in furtherance of the Acts of Congress of May 8, 1914, as amended, and June 30, 1914.
1½M—9-76 AECO 7, AGR 6