

Financial Planning Must Include Marketing Strategy

NEWARK, Del. — Financial management is the process of selecting the business strategies that have the best chance of achieving desired financial goals. Income statements, balance sheets and cash-flow projections are traditionally considered the cornerstones of farm financial analysis. But success also depends on effective production, risk management and marketing.

Actually, financial planning and marketing go hand in hand. The tools of sound farm management include both the balance sheet and the cash-flow projection, say extension economists at the University of Delaware.

Selling at the top of the market is a frequent dream of farmers. But is it a realistic goal to shoot for?

Extension crops marketing specialist Carl German suggests that producers who approach marketing as selling a product to achieve the greatest net financial advantage to their business are likely to develop a more effective marketing strategy — one that's more consistent with the risk-bearing ability of their business. Sometimes that means locking in prices that are less than total costs but which will cover variable costs.

The marketing process starts with production decisions, German says. The first step is to evaluate the potential profitability of a particular crop or livestock enterprise, given the prices and costs that currently exist and anticipated changes during the production process. "If your anticipated returns are greater than your expected costs," he says, "the production decision is a go."

The next step is to assess the risks involved in the enterprise and the implications for adverse changes in market conditions over the course of the marketing year. Compare these risks with the potential cost of reducing or transferring your price risk through the use of such marketing tools as cash contracts and options.

"The challenge is to devise a marketing strategy that is consistent with your cash-flow needs and income goals," German says. "You must develop a plan for future action and then make that plan a part of your total financial planning process. You can't just forget about marketing until you need cash for a payment and then try to sell something."

A more effective approach is to determine when sales will be most financially advantageous to your farm business, considering cash needs as well as the cost of holding the product.

"Base both production and pricing decisions on expected supply/demand conditions and anticipated costs," the marketing specialist advises. "This will bring your expectations in line with current conditions in agriculture. Grain prices, by any standard, are depressed. A good manager looks ahead and plans marketing and production over the next 12 to 18 months."

The grain supply and disappearance tables that are published periodically are one valuable tool when developing a marketing strategy. By looking at anticipated

stocks at the end of the year, growers can get a good feel for what marketing conditions will be.

German has written two regional publications that can help local grain producers develop more marketing strategies — "Using Basis in Making Grain Marketing Decisions" and "Agricultural Options: A Guide to Writing vs. Buying." Both were prepared for the Northeast Marketing Com-

mittee's (NEMC) Grain Marketing Task Force. To obtain copies, call or write: Carl German, Extension Marketing Specialist, University of Delaware, Townsend Hall, Newark, DE 19717-1303 (302-451-2511).

Cost of production is another essential piece of information. University of Delaware extension specialists have just completed a series of one-page cost of

production fact sheets for approximately 20 Delaware grain and vegetable crops. Copies of these fact sheets are available from county extension offices in Newark (451-2506), Dover (697-4000) and Georgetown (856-7303).

"Anyone can settle for the average going price when selling agricultural products," German says. "Effective marketing is getting the edge on that price."

The most successful products are generally those with a specific marketing plan, or who have used specific marketing advantages that are available to them, the economist says. "This includes producing a higher- than- average-quality product (such as seed grain) that commends a better price. Do you have some comparative advantage you can exploit in your farming operation?"

Alfalfa growers demand the best.



Horse farms sprawl over the hills and through the vales surrounding the Woodbine, MD farm of J. Stanley Harrison. Within driving distance are numerous paddocks of fine thoroughbreds and standardbreds of the racing industry. Growing alfalfa hay for choosy horsemen is a speciality at which Stanley excels. Here is what he tells alfalfa growers. **"They want good quality - if it isn't good, they won't take it at any price."** His Twin Pond Farm has a good reputation among horsemen. In fact, they drive to the farm and load his alfalfa themselves. No trucking or handling his hay crop! **"Maybe the best part is the \$150 in cash that each ton brings"**, he tells with a little smile at the corner of his mouth.

Business has grown so much that Stanley built a new pole barn to store hay and straw. What alfalfa variety does he use to fill the barn and get the quality alfalfa he has to have?

"I planted Cimarron in the fall of 1983. It was a dry fall but it started out very well. I've cut it for three years now. Our Cimarron alfalfa has been a good cash crop. Even if you get a dry year like we had this year, it comes through," he says. **Horsemen from miles around know where to find the leafiest, greenest hay. They just keep coming back to the barn full of Cimarron."**

That's the Cimarron story from Woodbine, Maryland.

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