

The Marketing Plan

In this section you will describe, in general terms, the industry in which you operate. Then detailed information on marketing strategies will be provided - how much you plan to sell, who your customers are, how your products will be priced and how you will promote your product.

The marketing plan will review the four P's of marketing: product, price, place and promotion, helping to ensure that you have a product which the market wants, and one that you can sell at a profit.

You will want to consider and evaluate a number of alternatives in the informal plan before finalizing your marketing plan. In particular, creating and maintaining a profitable business in the grains and seeds sector requires knowledge of developments in regional, national and international markets since a large proportion of sales are consumed out of province or exported out of the country.

1. Development of Commodity Sales and Prices

Most credit institutions will contact the grain elevators to obtain industry sales data and information on market trends. Schedules showing the industry growth rate and price developments over a period of five years are illustrated on a sample form on the following page and should be included in your business plan. We have used wheat in our example, but you should include all crops in your business plan. Further information can be gathered from a number of different sources including the following:

- industry and trade associations
- industry and trade journals
- on-line computerized information systems
- Statistics Canada and USDA publications
- other growers
- discussions with potential customers
- discussions with potential suppliers
- BC government business and agriculture advisory services
- university libraries and business research centers
- Agriculture Canada offices and research stations

**Development of
Commodity Sales
and Prices
Example**

BC Production - Wheat

	1989	1990	1991	1992	1993
Annual Farm Cash Receipts from BC Marketings (\$million)	13.3	12.7	10.8	11.4	6.4
Average BC Price (\$/tonne)	125.58	97.89	78.81	79.19	73.12
Volume of BC Production ('000 tonnes)	122.0	136	108.9	58.7	111.3

Canadian Market Sales - Wheat

Wheat (mmt)	1988/89	1989/90	1990/91	1991/92	1992/93
Beginning Stocks	6.3	5.1	6.4	10.3	10.1
Production	14.0	24.8	32.1	31.9	29.9
Exports	10.4	17.4	22.1	25.4	20.3
Consumption	4.8	6.1	6.1	6.7	7.5
Ending Stocks	5.1	6.4	10.3	10.1	12.2

International Market Sales - Wheat

Wheat	1988	1989	1990	1991	1992
Area (mha)	217.4	225.8	231.4	221.1	221.0*
Prod. (mmt)	495.0	532.9	588.1	542.3	553.1*
Exports (mmt)	104.9	96.8	94.7	90.6	106.6*

International Exports - Wheat and Wheat Flour

Wheat Exporters (mmt)	1988/89	1989/90	1990/91	1991/92
Argentina	3.5	5.6	4.7	5.6*
Australia	10.7	11.9	12.3	8.3*
Canada	13.5	17.0	20.7	23.6*
EEC	19.4	18.9	18.3	19.5*
US	37.6	33.5	28.3	35.1*
Others	12.1	7.8	6.3	14.5*
Total	96.8	94.7	90.6	106.6*

* - Projections

2. Industry and Market Trends

Identify major trends affecting the industry or business. This should include information on:

- style, varieties and consumer tastes in target markets
- market size, Canadian share and growth
- industry structure and size of operations
- market organization and pricing, delivery options
- conventional payment and credit arrangements
- new technology and production practices

You can find out about these trends by reading industry journals and discussing with other growers, customers and suppliers what changes they think will occur. Once you have identified the major trends, you need to decide how your business will accommodate them. Our example shows both domestic and international trends which apply to Peace Farms.

Industry and Market Trends Example

1. On average, 25% of Canadian wheat, 65% of barley, and 51% of canola is used domestically. In comparison, 75% of Canadian wheat, 35% of barley, and 49% of canola is exported.
2. BC produces 0.7% of Canadian cereal grains, 1.1% of canola, and 35.0% of creeping red fescue seed. Returns from traditional cereal crops have declined by 34-41% since 1988, canola by 21%. Pea and fescue prices have been depressed by acreage expansion out of the traditional crops into these commodities.
3. BC wheat grades tend to be one grade lower than the prairie average. Early maturing varieties are most suitable to the BC Peace River region climate.
4. Creeping red fescue seed markets are influenced by residential lawns and golf course development, soil conservation and land reclamation, and by the price and availability of other lawn seed species, such as Kentucky Bluegrass. In addition to the thriving growing conditions for fescue found in the Peace River region, demand for Canadian fescue seed production is enhanced by legislation forbidding thatch burning in Oregon.
5. Cooler, moist northern prairie conditions, as found in the Peace River region, are ideal for field pea production. The potential for feed pea production for domestic feed markets is untapped. New pea varieties are more erect and easier to combine.

6. Higher yielding, disease-resistant varieties of all crops adapted to Canadian conditions are being developed.
7. The industry is adopting environmentally sustainable practices. In addition, modified farming systems and rotations are being incorporated by farmers to reduce input costs.
8. Possibilities exist to market grains and oilseeds as “pesticide free” products at a higher price.

International Industry and Market Trends Example

1. Canada is a major world exporter of grains and seeds. Canadian producers of the six major grains and seeds derive roughly 60% of their farm incomes from exports at prices set in the international markets.
2. Subsidization in international and vegetable oil and oilseed markets has led to low returns to the Canadian crushing industry, the import of foreign oilseed for crushing in Canada and greater reliance on exports of domestic oilseed production to Japan. 89.5% of Canadian canola exports are to Japan. This is 43.4% of total Canadian canola production.
3. US loan rates set under domestic grain programs serve as the floor prices for commodities in international markets.
4. EU and US export subsidies are obscuring the role of grain stock levels and the marketplace in commodity pricing. There is strong pressure to remove these subsidies in the EU.
5. The Canadian grains and seeds industry is recognized as a world leader in production efficiency. Increased competition in globalizing markets is forcing the industry to be more responsive to international market price signals, new crops diversification and consumer tastes/preferences.
6. Political considerations leading to the provision of credit guarantees to Eastern Bloc and developing country importers of wheat, coarse grains and oilseeds will continue to affect the level and volatility of prices to producers.
7. Russia and the Ukraine can no longer afford to import Canadian wheat. They have the potential to compete with Canadian wheat in the long term.
8. Canada has, historically, been the worlds biggest exporter of barley. East Germany was one of the large importers of Canadian barley. Since the fall of East Germany, which has been absorbed into the EU, there have been no exports of Canadian barley to the unified Germany.
9. Canadian dollar is very low, so exports should be rising, while imports should be falling. The low Canadian dollar may also increase the price received for crops destined for the international market.



3. Political and Legal

Identifying legislation that affects how your products are produced and delivered allows you to react to controls that may impose additional cost or risk, or in fact may help you to reach your goals.

International agreements and political actions set the rules of trade among countries or trading blocs. Changes to these arrangements affect the terms and degree of access to domestic and international markets. Critical examination of the probable effects on competitiveness, continued availability of domestic agricultural programs and new markets should influence one's production and marketing plans.

**Political and
Legal Constraints
Example**

Constraint	Response
Interest rates rising.	Minimize borrowing requirements and try to reduce outstanding debt.
All wheat and barley exported, and that sold for human consumption must be marketed through the Canadian wheat board.	Recognize that marketing and pricing options vary by quality of grain grown, end use and marketing channel selected.
Delivery permits from Canadian Wheat Board are required to market grains and some seeds.	Ensure that all operators of farm have obtained delivery privileges.
GST accounting requirements	Adopt efficient book-keeping system.
Pesticide applicators must be licensed.	Ensure operators of pesticide equipment obtain certification.
Government income and revenue programs available to counter low returns	Evaluate short and long term impacts of participation.
Commercial seed growing requires certification by Canadian Seed Grower's Association.	Ensure compliance with regulations if considering seed production.
Organic farming designation requires inspection and farm management documentation.	Know standards and procedures and obtain certification before seeking to enter market.

**Political and
Legal Constraints
International
Example**

Constraint	Response
Import restrictions on grains and seeds are being eliminated between Canada, the US and Mexico under the North American Free Trade Agreement.	Efficient cost structure. Competitive North American market orientation.
International flow of grains has been improved by new GATT agreement.	Efficient cost structure. Competitive international market orientation.
Low Canadian dollar value, relative to currency of other countries.	Be aware that Canadian exports are likely to increase, while imports will decrease.



4. Competition

For each commodity, identify the major competitors in international markets. Also determine the location of those markets. This information can be obtained from trade associations, contact with potential customers or trade journals.

Domestically, identify the markets you expect to target, your competitors, and the products you will be competing against.

Competition Example

Crop	Suppliers	Competing Crops	Important Markets
Wheat	EU, US, Australia, Argentina	Other cereals, other wheat varieties	Brazil, China, Japan, Korea, Indonesia, US, Western Europe
Barley	EU	Other cereals	Saudi Arabia, Japan, US
Canola	US, China, India, EU, Central Europe	European & Asian canolas, soybeans, palm kernel, cottonseed, peanuts, sunflower seed, and associated meals and oils.	Japan, US, Mexico, EU, India, Indonesia, domestic crusher market.
Peas	Australia, US, Hungary	Lentils, soybeans (soy-meal), canola (canola meal), dry edible beans, faba beans	Feed peas: Germany, France, Belgium, Netherlands. Food peas: Cuba, Columbia, India, Pakistan
Fescue	US (Oregon), Denmark	Other fescues, Kentucky Bluegrass	US



5. Customer Analysis and Response

In this section you will examine the major criteria you think your customers use to buy products you are selling.

In the open markets, interviewing a wide range of customers is important, as it allows you the opportunity to confirm your thoughts. You may find that your experiences and preferences are not the same as those of your customers. It is understanding your customers' preferences, not yours, that will contribute to the success of your business.

In the orderly markets, identify the standards of quality and purity that are being promoted by your marketing agency. Make use of extension information and farm publications that evaluate varietal performance and management requirements to meet those standards. Talk to local farmers and adopt practices that top growers in your locale use to obtain the highest returns.

Customer Analysis and Response Example

Customers	Target	Barriers	Strategies
Cereal Buyers	Uniform, plump kernels, clean grain, high protein content	Uncertain weather for growth and harvest, poor weed control, incorrect cultural and harvesting practices, poor storage facilities	Effective weed control, use of correct cultural and harvest practices, have grain cleaned if necessary, select suitable variety, have sufficient storage facilities, and access to a grain dryer
Canola Importers	Clean, plump seeds with high oil content	Uncertain weather for growth and harvest, poor weed control, incorrect cultural and harvesting practices, poor storage facilities	Effective weed control, use of correct cultural and harvest practices, have seed cleaned if necessary, select suitable variety, have sufficient storage facilities
Pulse Crop Users	High protein content, free from impurities or contamination	Uncertain weather for growth and harvest, poor weed control, incorrect cultural and harvest practices, poor storage facilities	Effective weed control, use of correct cultural and harvest practices, have peas cleaned if necessary, select suitable variety, have sufficient storage facilities
Fescue Seed Buyers	Genetic purity, clean seed, high germination	Uncertain weather for growth and harvest, poor weed control, incorrect cultural and harvest practices, poor storage facilities, Boreal fescue is facing tough competition from new varieties.	Use good quality seed to start your field, effective weed control program, use correct cultural and harvest practices, have sufficient storage facilities, keep up to date on new varieties

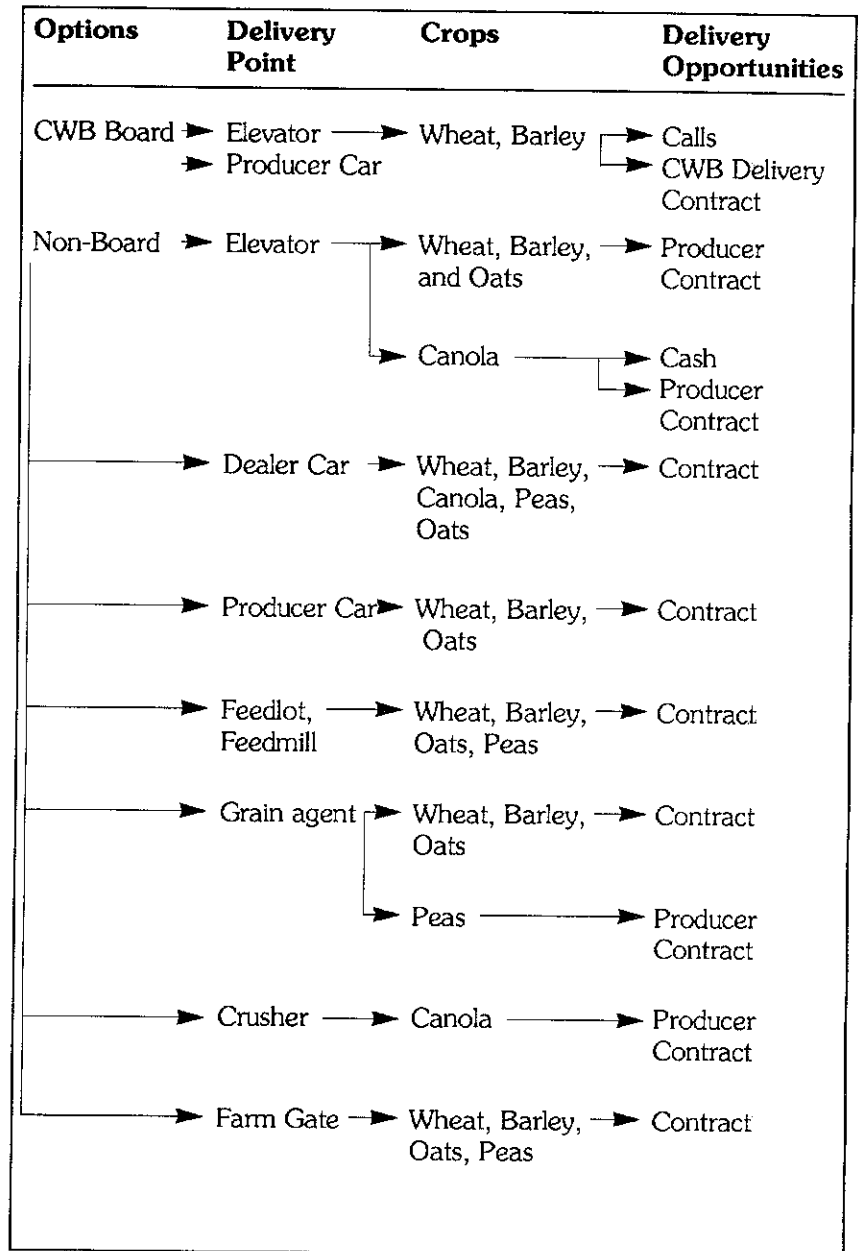


6. Delivery Options

In grains and seeds farming, each commodity has a set of marketing channels through which it is sold. Delivery options differ in the place, timing, quantity and pricing of sales. A grower, based upon individual circumstances and market analysis, develops a marketing plan comprised of a set of delivery commitments and pricing arrangements which meet revenue targets.

Set quality and quantity targets for your commodities before selecting delivery options in your marketing plan. If these targets are not met, delivery options may change. A delivery plan requires extra care to take into account the associated price and production risk, usually by a mix of pre-harvest and post-harvest options.

Delivery Options Example



7. Pricing Options

Each delivery option for the various commodities has different pricing options associated with it. Pricing options are a means of choosing the timing of your sales in relation to fluctuating market perceptions about demand for your commodities. Your market sales analysis will help you to identify pricing opportunities, both before and after harvest, which are likely to obtain best returns on your investment.

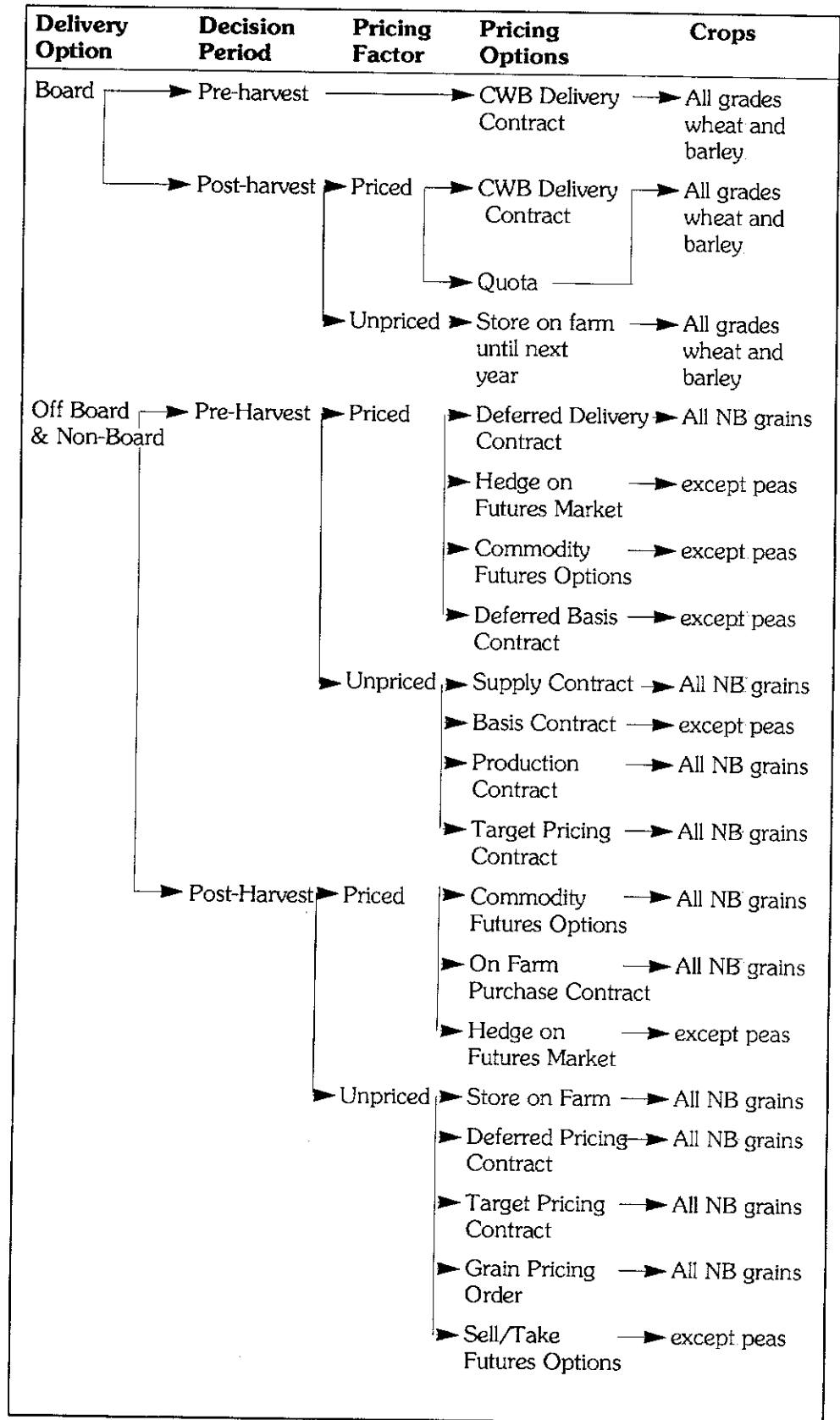
Choosing pre-harvest pricing options requires consideration of an allowance for shortfalls in delivery commitments due to the risk of production loss. Pricing agreements vary in terms of the stringency of quality and quantity delivery requirements, but usually with discounts incorporated in contracts which are non-binding in some way or another. Establishing oneself as a reliable contract supplier of quality product can be helpful in negotiating better pricing arrangements in the open market.

The first step in post-harvest pricing is to know your product. Obtain representative bin samples of your commodities. Second, make sure that potential customers are aware of your product.

Peace Farms focuses its marketing strategy on the use of combination price thresholds and expectations to determine which pricing options are selected throughout the crop year, and employs rules to help decide when to price. For example, the following techniques are often used:

- contracting a pre-determined portion of production to secure acceptable or favourable pre-harvest prices, when available
- sequential cash sales or contracting into rising markets to obtain prices in the upper 50% of annual price ranges
- business speculation, to reduce risk of holding unpriced binned commodities while still being in a position to take advantage of price rallies

Pricing Options Example





8. Target and Future Returns

This section is critically important. You need to set targets for your total farming operation and the impact of individual commodity sales must be viewed in terms of the overall farm financial strategy and objectives. The marketing plan forms the foundation of all your projections. Using your income and net worth projections, set financial targets for your business over the next three years. Plot these out according to a schedule that allows you to evaluate your performance at any point in time. Shortfalls in obtaining income objectives have implications for the viability of the business. Know why targets are met or not met and be prepared to make adjustments to improve performance.

In order to set targets, you must know the cost of production for each commodity, and historical as well as predicted market prices. You should not be producing a commodity if the outlook is poor for the coming year. You will need to review these targets each year, based on market supply and price trends. For each commodity, you should target to be in the top 1/3 of selling price for that year.

Target and Future Returns Example

	Year 1	Year 2	Year 3
Farm Financial Objectives	To establish positive net income	To reduce debt to 0 in 10 years	To generate 5% return on investment
Total Farm Cash Expenses	224,138	219,002	213,865
Depreciation	90,630	66,559	49,226
Total Income Projections Status Quo (A)	272,442	278,080	296,746
Total Income Targets (B)	311,514	284,837	307,691
Marketing Improvement Goal (B-A)	39,072	6,757	10,945



9. Commodity Selling Thresholds and Targets

Prepare selling scenarios for each of your commodities, ranging from absolute minimum to acceptable to favourable. Knowing your direct costs and contribution margins is essential to making any selling decisions. A decision to sell or contract to sell must be coordinated with pricing option, delivery opportunity, cash flow requirements, and quota availability, where applicable. This means the ability to plan to have the right product available at the right time.

Individual commodity marketing plans should be related back to income targets. Price weakness in one commodity may be offset by favourable pricing opportunity in another. Use historic prices and price patterns to optimize the timing of market decisions.

We have included a graph of long-term breakeven pricing for wheat, you should prepare this information for all of your crops.

Commodity Selling Thresholds and Targets Example

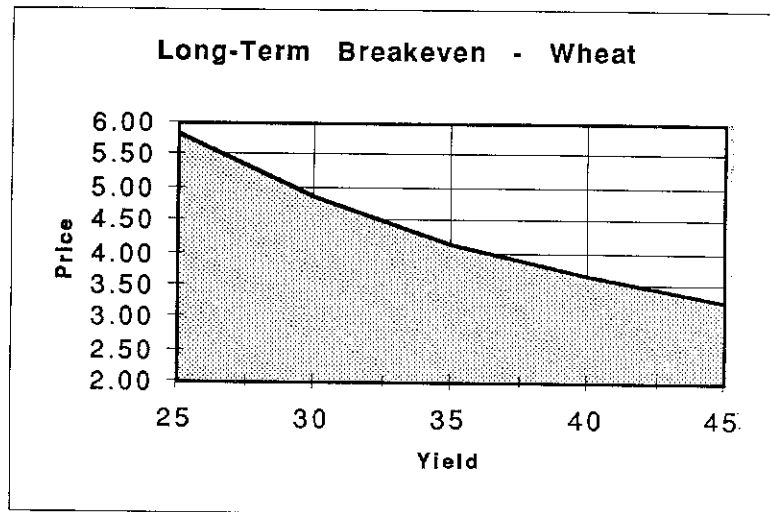
Selling Thresholds

\$/Bushel	Wheat	Barley	Canola	Fescue	Peas
Short-term survival (break-even on cash costs + living expenses)	3.19	2.23	4.86	0.42	3.19
Long-term survival (short-term survival + depreciation)	4.16	2.91	6.33	0.55	4.16
Decent return on investment (long-term survival + 6% return on owner's equity)	4.64	3.25	7.06	0.61	4.64

Selling Targets

Aim to be in top 1/3 of prices received in any given year.

The graph below shows the price required for possible yields, in order to assure long-term survival. The price/yield combinations above the line (the white area) will result in long term survival.





10. Promotion and Advertising

For each commodity you plan to sell, indicate how you will promote it to the end user. Special attention should be paid to customers you want to reach, timing of promotions, business image, cost effectiveness and benefits. Options may include paid advertising, sales promotions (samples), on-farm seed cleaning, delivery, participation in seed fair, as well as direct in-person and phone contacts with customers. The following sample form shows what promotional tools Peace Farms plans to use to achieve its pricing and marketing targets.

Promotion and Advertising Example

Method of Promotion	Target Customer	Target
Obtain analysis of grains and seeds grown re: protein or oil content, germination, bushel weight, weed impurities. Represent your commodities by their quality characteristics	Local farmers, feed mills, livestock operations, crushers, grain dealers	Identify superior product, accurately represent product, gain credibility by knowing product
Provide grain and seed samples to potential customers	Line elevators, feed mills, livestock operations, crushers, grain dealers	Allow potential customers to see, first-hand, what kind of product I have available
Direct contact, in-person visits, phone follow-up	Local farmers, feed mills, livestock operations, grain dealers	Increase awareness of my product, let potential customers know what I have available
Participate in Regional Seed Fair	Seed dealers	Reach a large market, identify superior product, allow seed dealers to compare my product to others available