



“Those who do not learn from history are doomed to repeat it”: Using historical prices to determine your best grain marketing strategy.

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AIM

When selling grain we want to:

- Maximise returns
- Minimise risk/stress
- Minimise costs (time, transactions, fees)

Analyse historical price data to determine the optimal marketing strategy

METHODOLOGY

10 hypothetical farmers sell wheat from 2004 – 2013 using actual CBOT prices following different pre-determined strategies to determine when and how much to sell.

- 5 simple strategies (sell a set tonnage at set times of the year)
- 5 dynamic strategies (tonnage and timing vary depending on price)





*“... there are known knowns; that is to say, there are things we know that we know.
There are known unknowns; there are things that we know we don't know.
But there are also unknown unknowns; there are things we do not know we don't know.”*

Donald Rumsfeld, 2002

Winner of the 2003, Foot in mouth award





In regards to grain marketing, what are the known knowns for your business?

- Historical production results (yield and quality)
 - Average, trend and variation (deciles)

Production risk

- Financial position and cash flow requirements
- Risk profile
- Historical prices
 - Average, trend and variation (deciles)

Price risk





What are the known unknowns?

- Actual future production and quality
- Actual future prices
- Actual future financial position and cash flow requirements

And what are the unknown unknowns?

- No one knows.

So, lets apply this philosophy to grain marketing...





Figure 1: CBOT Spot Price and 5 year rolling price deciles in \$A/t, 2004 - 2013

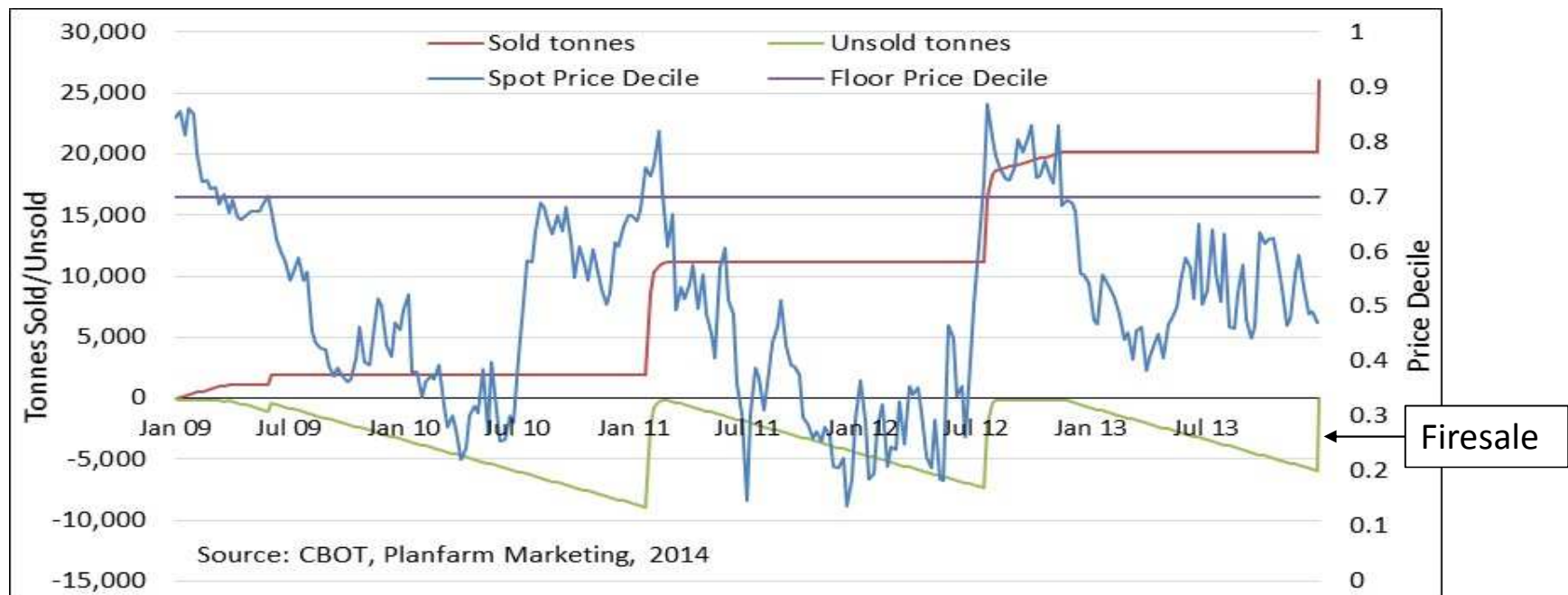


Figure 2: Sales strategy using decile 7 prices to determine timing and tonnes, 2009 - 2013



Figure 3: Sales strategy using decile 5 prices to determine timing and tonnes, 2009 - 2013



Table 1. Results for the different marketing strategies, 2004 - 2013

	Tonnes to sell	Tonnes Sold	Tonnes Unsold	Value of Sold Grain	Value of Unsold Grain	Total Value	Avg Price	Avg weeks without sale/year
Benchmark Ben	52,200	52,200	0	15,202,093	0	15,202,093	291.2	0
Harvest Harry	52,000	52,000	0	15,338,754	0	15,338,754	295.0	26.2
Jack Frost	51,600	51,600	0	14,939,868	0	14,939,868	289.5	26.4
Drought Doug	52,800	52,800	0	15,464,318	0	15,464,318	292.9	25.8
Seppo Sam	52,400	52,400	0	15,065,432	0	15,065,432	287.5	26
Benchmark Bob (0)	52,200	52,095	105	15,264,210	26,538	15,290,747	292.9	0
Pessimistic Percy (3)	52,200	52,095	105	15,476,929	26,538	15,503,467	297.0	12
Moderate Mandy (5)	52,200	51,803	397	15,984,929	100,153	16,085,082	308.1	24.1
Optimistic Owen (7)	52,200	46,277	5,923	15,337,284	1,495,294	16,832,579	322.5	35.8
Euphoric Ewan (9)	52,200	24,276	27,924	18,149,205	7,049,376	15,198,581	291.2	46.2
Optimal Orlando (7.7)	52,200	46,195	6,005	15,608,289	1,515,978	17,124,267	328.1	39.2



Table 2. Results for the different marketing strategies, 2009 - 2013

	Tonnes to sell	Tonnes Sold	Tonnes Unsold	Value of Sold Grain	Value of Unsold Grain	Total Value	Avg Price	Avg weeks without sale/year
Benchmark Ben	26,100	26,100	0	7,278,855	0	7,278,855	278.9	0
Harvest Harry	26,000	26,000	0	7,290,793	0	7,290,793	280.4	26.2
Jack Frost	25,800	25,800	0	7,223,934	0	7,223,934	280.0	26.4
Drought Doug	26,400	26,400	0	7,333,775	0	7,333,775	277.8	25.8
Seppo Sam	26,200	26,200	0	7,266,916	0	7,266,916	277.4	26
Benchmark Bob (0)	26,100	25,995	105	7,282,894	26,538	7,309,432	280.1	0
Pessimistic Percy (3)	26,100	25,995	105	7,337,137	26,538	7,363,675	282.1	7.2
Moderate Mandy (5)	26,100	25,703	397	7,689,998	100,153	7,790,150	298.5	26.2
Optimistic Owen (7)	26,100	20,177	5,923	6,865,128	1,495,294	8,360,423	320.3	45.2
Euphoric Ewan (9)	26,100	0	26,100	0	6,588,945	6,588,945	252.5	52.2
Optimal Orlando (7.6)	26,100	20,137	5,963	7,122,927	1,505,452	8,628,379	330.6	49



Figure 4: Sales strategy using decile 7.7 prices to determine timing and tonnes, 2009 - 2013



“Understand the known knowns to better manage the known unknowns and don’t sweat the unknown unknowns.”

Me, 2014

It’s all about...

AWARENESS

What are your business’s risks, objectives, capacities and limitations?

