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# Risk management requires analysis, strategic marketing

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**Agriculture,** by its very nature, is a volatile business. Market prices have increased for many commodities over the last few years as price is strongly influenced by uncertainties in supply and demand. At this time, many producers are worried about how long high prices can be sustained. Fear of falling prices, combined with high input costs, seems to have risk management on everyone's mind, but few individuals are comfortable with the details. The purpose of this article is to increase one's comfort level with strategic marketing since it is the precursor to implementing specific risk management tools.


First, it is important to realize that your risks are unique to you. No two individuals have the same operation, financial situation, skills or tolerance for risk. Self-analysis will help you identify your risks and your financial ability to face those risks. When conducting a self-analysis, consider your emotional response toward marketing. Do you avoid managing risk because you are the type of person who hates to leave "money on the table," the type who wants to sell only at the top of the market, or are you the type of individual who makes emotional marketing decisions such as selling product to generate quick cash? Emotional marketing choices, such as these, have their place, but more strategic marketing choices are the preferred business method and are usually more beneficial in the long run.

Simply put, strategic marketing takes a thorough understanding of your operational goals, knowledge of the industry and discipline to stick to the strategy. Developing a written strategic marketing plan will help you think through the details of each marketing strategy and will help you focus. Consider your goals and expectations for marketing, and develop a specific plan of action for reaching those goals. A strategic marketing plan should include anticipated prices and quantities to be marketed at each potential marketing date (e.g., if by date XYZ, corn gets to $X, I'm going to sell X percent of my crop). The strategies are endless and will be different for each year, each enterprise and each operation.

A key step in developing your marketing plan is calculating your unit cost of production. Knowing cost of production allows you to calculate breakeven price. Although many producers say their goal is to at least break even, it is important to plan for a reasonable profit. Profit is necessary to pay down debt, expand the operation or live more comfortably. To identify your "price trigger," or the minimum price you are willing to accept for your product, add your target profit margin on to your breakeven price. Once you have identified your price trigger, specific risk management and marketing tools can be discussed and implemented. Keep in mind that markets are not guaranteed to provide your target price. It is important to watch the markets closely and take advantage of marketing opportunities as they are presented.

With risks come great opportunities. Before you can capitalize on potential opportunities available in volatile markets, you must first know your own tolerance for risks and your reaction to ever-changing conditions. A strategic marketing approach requires thought and discipline to stick to your marketing plan. Learning to better market your product and manage risk is essential to bring more value to your operation in years to come. ■