

Production Vs Marketing-Which is More Important?

When times get tough on the farm, everyone looks for a solution to economic problems. One of the theories frequently put forward is that if farmers would just become better marketers, they could make a lot of money. On the surface it is easy to draw this conclusion. In reality, it is not so simple.

If we look at the potential for increasing returns, there is little doubt that there is a lot of room for improvement in marketing. In an area where the environment is conducive for producing 50 bushel per acre soybean yields, the average yield might be 45 bushels. That makes the average yield 90% of the maximum. At the same time, the maximum price paid for soybeans in a year might have been \$6 but the average price paid to farmers only \$5. That makes the average price 83% of the top price.

Several factors come into play, however. For one thing, the top price comes before the crop is harvested about 70 % of the time. That means that to get the best price a farmer has to sell something that he or she does not have. Production risk comes into the transaction as the individual tries to guess how many bushels or tons will be available at harvest.

Secondly, the factors that lead to improvement in yields are much more reliable than the factors that lead to improved marketing success. Agronomic research typically has a benchmark of 95% reliability before anything is accepted as fact. Soil fertility, pest control, plant genetics and other production factors can be predicted with a high degree of accuracy.

Marketing is a different story. The tools of fundamental analysis, technical analysis, futures, options and a wide variety of strategies are all available. However, when any of these is implemented the outcome is as expected no more than 70% of the time. A marketer who is profitable that frequently is very successful.

Because of the lack of reliability in marketing information, getting assistance in solving production problems is much easier than getting good marketing advice. Most crop consultants have degrees in agronomy or related sciences. Many have graduate training. No special training is required to be a marketing advisor. Some advisors have business or economics degrees. Others have a wide range of backgrounds in other fields. I know of no correlation between professional training and marketing success.

A final factor that comes into play is the farmer's personality. Most farmers like the challenges of production more than marketing. Driving machinery, planting crops, hauling grain and related activities come natural. Many were brought up to believe that office work is not real work. Some think that the only time that one should spend in the office is when no field work can be done.

Farmers learned to do cash flows and financial statements because at least those concepts are straight forward. It takes a lot of motivation and persistence to deal with the abstract concepts of marketing. The payoff is slow in coming. In areas where most of the farming is contract production, working with the legalities of contracts may be as frustrating as dealing with commodity futures markets.

In the final analysis, even though the potential for gains is greater in marketing, the average farmer has at least a good chance of improving profits by paying more attention to production details.

In my marketing workshops, I tell farmers that their first obligation as a farmer is to grow as many bushels as possible for the lowest cost possible. If production is low, the cost per unit may be so high that there is no reasonable chance of getting a price high enough to make a profit. When they are satisfied that they are doing a good job with production, they can focus on improving marketing skills. Improvement in that area will not come fast. It will involve successes and failures, some of which may be expensive. There will be trials and errors as the marketing skills are developed. However, improvement will eventually come.

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Note: This article and other marketing resources can be found at www.soyroy.com.