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Managing Marketing Risks*

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Marketing is the part of your business that transforms production activities into financial returns. However, many unanticipated forces, such as weather, market trends and government actions, can lead to uncertainty of costs, prices and demand in the market and, therefore, cause marketing risks. Marketing risk largely concerns price risk and market availability. Price risk is related to the volatility of product or input prices. Market availability risk is related to loss of market access due to competition or loss of a major customer, and loss of marketing power due to the small size of sellers relative to buyers.

Analyze Marketing Risks

As agriculture moves towards a more global market, marketing forces increasingly arise from world factors – consider how currency exchange rates affect international trades, and the impact of international supply on U.S. markets. These forces are often difficult to predict and impossible for individual growers to control. To effectively managing marketing risks, growers need to adopt strategies that are in accordance with their own risk attitudes, preferences, and business and family financial conditions. A better understanding of how risk tolerant you are, your financial situation, what risk factors you can control, and the possible consequences of your decisions will remove some of the uncertainty from making marketing decisions. To be systematic about analyzing marketing risks, you should:

- ◆ Identify the nature and importance of various sources in the market that might cause you to earn lower profits.
- ◆ Evaluate the impacts of different sources of marketing risks on the efficiency and profitability of your business.
- ◆ Focus on factors you can control and select risk management strategies to minimize those marketing risks.
- ◆ Evaluate various alternatives for managing marketing risks, potential costs and returns, and their impacts on risk reduction and the overall business.

Respond to Marketing Risks

The development of year-round supplies and increased competition between global mega-merchandisers and regional/local retailers has expanded the range of mainstream and specialty agriculture products. Agriculture producers have responded to this diversified market in a number of ways to control marketing risks: establishing production in multiple regions, forming strategic alliances with other producers or marketers, developing new products, and forcing early or late production. In addition, marketing contracts are becoming increasingly important to larger producers, as is spreading sales to reduce dependence on a small number of buyers or market segments. Smaller-scale producers are seeking specialty and value-added niches, and are utilizing additional marketing channels such as a variety of direct marketing outlets and marketing cooperatives to buffer market access and price risks in the wholesale market.

These new market developments have created opportunities as well as problems for producers and marketers of agriculture products. The new products often have special production, handling and marketing requirements, and the new markets often demand transformation of operation logistics. To make an informed and balanced decision to manage marketing risks, managers of agriculture businesses should begin with developing a strategic marketing plan and also take into consideration other aspects of risks in the operation including production, financial, legal, and human resource.

Some producers have also formed marketing clubs to improve their knowledge of marketing concepts and gain greater success in the marketplace. A marketing club is a grower-learning group,

in which all participants contribute their knowledge and share tasks to increase their marketing know-how. It provides members with an opportunity to explore specific marketing-related topics that interest them, at the pace and level of depth they need. Extension educators and other resource people can play supportive roles, but it is the members who determine what they want to learn and how they will learn it.

Another risk management tool that is often overlooked, especially by specialty crop producers, is insurance. Insurance is not an investment tool. Nonetheless, in the event of a serious mistake by you or your employee, an accident, or a natural or man-made disaster, your insurance coverage is likely the only thing that will stand between you and a major loss. Both the type(s) of insurance you carry and the level of coverage provided through each type of insurance are important. Types of insurance to consider include liability insurance, hazard insurance on business property, business continuation insurance, insurance for employees, and crop insurance. Crop insurance relates to the marketing plan by helping to insure that in the event of a crop or market failure, you will be able to continue operating existing resources and serving your markets that you have worked hard to develop. Government provides cost-sharing incentives for growers to purchase crop insurance policies, especially in the underserved Northeast States.

Successful marketers are continually updating their abilities by learning new skills. Learning about the full range of marketing tools will allow you to become a better marketer and risk manager. Finally, marketing decisions should not be made independently of other business decisions; they should be integrated with other aspects of the overall business.

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