PUTTING THE RISK PROTECTION ACT OF 2000 TO WORK:

APPLIED MARKETING STRATEGIES

Scott H. Irwin, Darrel L Good, and Joao Martines-Filho
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http://web.aces.uiuc.edu/farm.doc/
Introduction

- Increased emphasis on marketing and risk management since passage of “Freedom to Farm” Act in 1996
  - Risk Protection Act of 2000 continued this trend
- Little research on actual performance
- Goal of AgMAS Project is to provide unbiased and rigorous performance evaluation of market advisory services
  - Majority of funding provided by USDA
Three Important Issues

- Market advisory service performance relative to an appropriate benchmark
- Predictability of market advisory service from year-to-year
- Active vs. passive marketing
AgMAS Data Collection

- Tracking about 25 advisory services since September 1994
- Paid subscriptions obtained for each service
- Recommendations recorded in “real-time”
- Data available on corn and soybeans for 1995-1999 crop years
Simulation of Advisory Service Performance

- Simulation for central Illinois farm
- Two-year marketing window
- Net advisory prices are stated in harvest equivalent terms
- LDPs/MLGs included for 1998 and 1999 crops
## Average Program Returns Above Market Benchmark

<table>
<thead>
<tr>
<th>Year</th>
<th>Corn (¢/bu.)</th>
<th>Soybeans (¢/bu.)</th>
<th>Revenue ($/acre)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>+14</td>
<td>+33</td>
<td>15</td>
</tr>
<tr>
<td>1996</td>
<td>-2</td>
<td>+19</td>
<td>2</td>
</tr>
<tr>
<td>1997</td>
<td>-1</td>
<td>+10</td>
<td>1</td>
</tr>
<tr>
<td>1998</td>
<td>-7</td>
<td>-5</td>
<td>-6</td>
</tr>
<tr>
<td>1999</td>
<td>-3</td>
<td>+17</td>
<td>2</td>
</tr>
<tr>
<td>1995-99</td>
<td>0</td>
<td>+16</td>
<td>+3</td>
</tr>
</tbody>
</table>
Pricing Performance and Risk Relative to Benchmark, Corn, 1995-1999
Pricing Performance and Risk Relative to Benchmark, Soybeans, 1995-1999
Pricing Performance and Risk Relative to Benchmark, 50/50 Revenue, 1995-1999

- Higher Revenue Less Risk (0 programs)
- Higher Revenue More Risk (8 programs)
- Lower Revenue Less Risk (3 programs)
- Lower Revenue More Risk (7 programs)

Market Benchmark
Perfect Predictability of Advisory Service Program Rank
Advisory Service Program
Rank, Corn, 1996 vs. 1997

Correlation = -0.04
New Approach to Grain Marketing

• Two basic approaches
  – Active marketer: actively try to beat the average price offered by market
  – Passive marketer: satisfied with average price offered by market

• Consider a portfolio of the two approaches
Active Marketer Needs

- Information
- Analysis
- Education
- Advisor
1995 Corn Marketing Profile for a “Scale Up” Program
1995 Corn Marketing Profile for a “Selective Hedging” Program
1995 Corn Marketing Profile for an “Aggressive” Program
Select A Passive Strategy

• Indexing
  – Select an External Source to Trigger Sales

• Mechanical Do-It-Yourself
  – Price Equal Amounts Every Other Month for Two Years
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