Producer Marketing Clubs:

They Have A Role In Educational Programs

— by James Mintert and William I. Tierney, Jr. —

Most farmers don't do a "good" job of marketing and we don't know why. Recent surveys indicate that only seven percent of Kansas grain farmers have ever hedged while only 18 percent have ever done any forward contracting, only fractionally higher percentages than in 1972. Research reveals that farmer marketing practices in other states are similar to those of Kansas farmers. For example, Tierney found that only 5 percent of grain farmers across 17 midwestern states had done any hedging and only 15 percent had done any forward contracting in the 12 months previous to the survey.

◆ Producer Marketing Clubs have been organized in Kansas by Kansas State University's Cooperative Extension Service as a way to encourage farmers to try new and innovative marketing strategies. This educational activity recognizes that not all farmers follow economists' rational approach to marketing. Too often marketing education programs assume that all farmers fit into just one decisionmaking pattern—the "rational" pattern.

Despite the reluctance of farmers to manage price risk via hedging and forward contracting, other research conducted by Patrick and his associates suggests that a relatively large number of farmers feel that output (ex grains) price risk is the number one farm risk they face. It should not be implied that farmers can't do a good job of managing price risk unless they use futures, options, or forward contracts. However, it is important to understand why so few farmers use hedging and forward contracting to manage price risk.

Extension economists and other educational institutions such as future exchanges typically design educational programs suitable for rational farm marketers who carefully evaluate available marketing alternatives and use those alternatives that maximize expected farm profitability. However, our perception is that many farmers use managerial coping patterns that differ sharply from those of the so-called "rational" manager. Therefore, educational programs tailored to the needs of farmers who have different coping approaches to risk have the potential to increase the impact of extension marketing programs. One such program is the Producer Marketing Club.

Marketing Behavior

In our work with farmers, we have observed five marketing behavior patterns: (1) Traditionalists, (2) Black-Box Radicals, (3) Mules, (4) Nervous Nellies, and (5) Rational Managers.

James Mintert and William I. Tierney, Jr. are Assistant and Associate Professors of Agricultural Economics at Kansas State University.

This classification is based on the work of Janis and Mann who analyzed how stress affects decisionmaking. They developed a conflict theory that describes the conditions under which stress imposes limitations on the decisionmaking process. This conflict theory helps explain why many farmers may be unwilling to use price risk management tools such as hedging. Janis and Mann's five stress-coping patterns are the basis for our five marketing behavior patterns.

Traditional marketers simply decide to continue what they have always been doing while ignoring available information regarding the risk of losses from pursuing their usual marketing strategy. Unfortunately, the traditional approach appears to be the most common marketing practice and is remarkably persistent. Despite the development of new marketing alternatives, most farmers market their crops or livestock much as their fathers and grandfathers did, pricing at harvest or delivery and selling out-of-storage when they need to pay bills.

A somewhat less common decisionmaking approach is that of the Black Box Radicals. Black Box marketers are in search of the holy grail of farm marketing strategies. Individuals in this category tend to adopt the course of action that is most recently and strongly recommended. These farmers are easily swayed by advisors and brokers, often making their marketing decisions using arcane technical indicators exclusively, ignoring supply and demand information. Rarely do Black Box Radicals develop long-run marketing plans. While this group of marketers tends to be very vocal, our experience suggests that Black Box Radicals are relatively few in number.

A much larger group of farmers that often feels completely alienated from the markets fits into the Mules category. Their managerial behavior is extremely dysfunctional because, even in the face of massive contradictions, they rigidly hold onto their beliefs. Mule marketers tend to evade the conflict associated with making marketing decisions by procrastinating, shifting responsibility to others and, quite often, ignoring corrective information which conflicts with their preconceived notions. Some Mules avoid the decision conflict by simply adopting a permanently bullish posture. Regardless of current fundamental or technical information, these farmers are convinced that "the market must go higher." These same Mules often look for scapegoats and blame commodity exchanges and speculators when prices fail to rise. Overall, Mules are the most difficult group to reach via traditional marketing education programs because of their unwillingness to accept new information.

While Mules try to ignore market developments, other farmers—Nervous Nellies—are overstimulated by the same market developments. Nervous Nellies tend to seize upon hastily contrived approaches while overlooking all the consequences of their choice. The most extreme form of this behavior is panic. Anecdotal information indicates that panic marketing is a relatively common approach to marketing. How often have farmers sat by and watched commodity prices drop, paralyzed by indecision, while their crop and/or livestock inventory values decline precipitously? Eventually, panic sets in and the Nervous Nellies sell a large percentage of their production at or near the market's bottom, after ignoring the often profitable marketing opportunities that were available earlier. Nervous Nellies present a sharp contrast to the type of farm manager that is mistakenly assumed to be the most common decisionmaker, the Rational Manager.

The Rational Manager's behavior is characterized by painstaking searches for relevant information and careful appraisals of available alternatives. This is the "optimal" farm manager that economists too often assume is representative of most farmers. Traditional extension marketing programs have been designed for the managers utilizing this coping pattern.

Typical Extension Programs

Many of today's extension marketing programs assume that farmers have not taken full advantage of their marketing alternatives because they lacked information or the requisite marketing skills. Consequently, extension's efforts have been directed towards developing marketing handbooks, fact sheets, short courses, seminars and, more recently, video tapes. These programs implicitly assume that farmers are "Rational Managers." To improve the marketing skills of the vast majority of farmers, it is time to reconsider how we develop and deliver extension marketing programs and for these programs to recognize [Underline] all [End Underline] marketing behavior patterns.

The Kansas State Approach

At Kansas State University we have expanded our traditional marketing education programs while finding a new way to organize our audience; as members of Producer Marketing Clubs. Organizing our audience into Producer Marketing Clubs is based on the belief that only by [Underline] experiencing [End Underline] the marketing process will farmers be able to articulate and reform attitudes, perceptions, and values that inhibit their marketing efforts. Producer Marketing Clubs have been established in over 60 counties in Kansas. Marketing clubs are self-supporting, self-governing and, to some extent, self-taught collections of farm marketers. The participants learn by "test marketing" limited quantities of commodities thereby simulating the kinds of marketing strategies that they may eventually employ on their own farms.

Producer Marketing Clubs have been operating in Kansas since 1984. Typically, a county extension agent organizes the club in cooperation with one or more agribusiness leaders. The county agent, along with area and state extension economists, supports the club's activities by providing leadership, formal instruction, market information, and other support materials. Club membership averages 15 people, most of whom are full-time farmers or ranchers, with gross sales averaging approximately $170,000.

The club usually collects $80-$100 per participant to finance market positions in two or more commodities produced by a majority of the members. One and one-half to three hour meetings are held approximately every two weeks. Beginning meetings focus on learning the basics of using futures, options, and forward contracts as part of a farm marketing strategy. Many of the clubs have subdivided their membership into commodity subcommittees. Each subcommittee is responsible for a single commodity and is charged with keeping updated futures and basis charts, reporting on developments affecting that commodity, and proposing appropriate marketing strategies. Club members are not told what to do and are not explicitly encouraged to change their farms' current marketing practices.

Their Effects

Marketing clubs offer participants an opportunity to objectively evaluate and improve their marketing practices in a new environment, that of a support group. It is the support group feature of marketing clubs, coupled with the ability to simulate various marketing strategies in a relatively risk free environment, that seems to encourage marketing club participation by farmers with defective decisionmaking patterns. Although we do not have a fully articulated theory on how or why marketing clubs work in modifying long-held management practices, they do seem to work. Over half of club participants apply, on their own farm operations, marketing skills acquired earlier in a marketing club.

Participation in a marketing club will not "convert" all farmers to the use of new price risk management tools, nor should it do so. The club does, however, provide its members with the opportunity to experience firsthand the use of one or more "new" marketing alternatives. Some farmers find that, after a "test drive," they still don't like these "new" marketing methods and choose to continue using their old marketing practices. Their choice is more likely based on factual information, however, rather than the fear and distrust that often dominates farmers' marketing discussions.

For More Information

Readers may also want to read the following three articles.

"Coping with Decisional Conflicts" by Irving L. Janis and Leon Mann in [Underline] American Scientist [End Underline], November-December 1976.

"Risk Perception and Management Responses: Producer-Generated Hypothesis for Risk Modeling" by George R. Patrick, Paul N. Wilson, Peter J Barry, William G. Boggess, and Douglas L. Young in [Underline] Southern Journal of Agricultural Economics [End Underline], 1985, pages 231-238.

"Producer Marketing Clubs: The Kansas Experience," a paper presented at American Agricultural Economics Association Extension Workshop, July 31-August 1, 1987, East Lansing, Michigan, by William I. Tierney, Jr.

For The Fun Of It --

A Department coordinated by William Kost

Some Guidelines for Forecasters

- The first law of forecasting: Forecasting is very difficult, especially if it's about the future.
- He who lives by the crystal ball soon learns to eat ground glass.
- The moment you forecast you know you're going to be wrong, you just don't know when and in which direction.
- When presenting a forecast, give them a number or give them a date, but never both.
- When asked to explain your forecast, never underestimate the power of a platitude.
- When you know absolutely nothing about the topic, make your forecast by asking a carefully selected probability sample of 300 others who don't know the answer either.
- If you have to forecast, forecast often.
- If you're ever right, never let 'em forget it.

Extracted from *"The Three Rs of Economic Forecasting— Irrational, Irrelevant and Irreverent"* compiled by Edgar R. Fiedler, ACROSS THE BOARD: THE CONFERENCE BOARD MAGAZINE, Vol. XIV, No. 6, June 1977.

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William Kost is an Agricultural Economist with ERS, U.S. Department of Agriculture.

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