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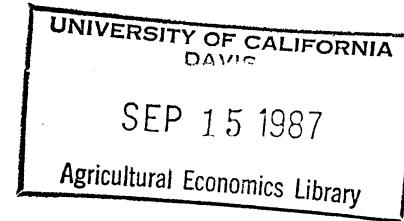
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FARMERS CURRENT MARKETING PRACTICES AND ATTITUDES\*

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*Stone Trading*



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Improved marketing is going to save the "family farm". That is the impression one gets when listening to some policy and marketing extension specialists and their private sector counterparts. Before we can reach any agreement on whether improved marketing skills will help the nation's farmers, we need to know how farmers currently market their farm production and why they market their crops and livestock as they do. Various researchers and extension economists have tackled these questions in recent years via surveys and questionnaires, but, unfortunately, these survey results have not always been published.

The purpose of this paper is to help identify farmers' current marketing practices and attitudes towards managing price risk. The results of several surveys conducted in Kansas and elsewhere are used to reach some tentative conclusions regarding farmers marketing practices. The implications these provisional findings have for future extension marketing programs are also addressed with some suggestions for programming changes included.

A 1972 survey of Kansas grain farmers conducted as part of a multi-state project (Hill) indicated that only 4% of the respondents had ever hedged a portion of their crop while a mere 12% had engaged in some forward contracting. When the survey was repeated in 1983 (Tierney), the percentages exhibited a modest improvement with only 7% of the responding farmers indicating that they had ever hedged and 18% indicating that they had engaged in some forward contracting (table 1). Similarly, a 1984 survey of Kansas livestock producers (Barnaby, et. al.) revealed that only 6.2% of the respondents had ever used livestock futures to hedge the sale of their production. Despite the apparently small number of Kansas farmers that hedge or forward contract, the marketing

practices of Kansas farmers do not appear to differ significantly from other midwestern producers.

Farmers in 17 midwestern states were surveyed in 1984 by Tierney to learn more about how they market their production. The sample was obtained from two sources: a marketing research company and the subscription list of a national farm magazine. The farm magazine subscription list was stratified by selecting subscribers whose gross sales were in the upper two-thirds of all subscribers. Less than 5% of the survey's respondents had engaged in hedging during the preceding 12 months while less than 15% of the respondents had forward contracted any of their production during the same time period. Some more recent data suggests that some of the more highly skilled farmers might be marketing their crops more aggressively.

Shapiro and Brorsen conducted a survey at a Purdue Top Farmer Crop Workshop with farmers that could be characterized as above average in size, education and management ability. A far higher percentage of the Purdue survey participants (63%) had hedged a portion of their production during the preceding five years than was found in any of the Kansas studies. The percent of production hedged by these producers, however, was a relatively small 11.4%. The mean percent forward contracted during the same period was 20.5%. These same farmers used alternative risk management strategies, such as government commodity program participation (93%) and purchase of crop insurance (24%), more heavily than they did risk managing marketing strategies. Shapiro and Brorsen attempted to explain why farmers hedge by modelling the percent of expected output hedged by these farmers as a function of a wide variety of factors commonly thought to influence the decision to hedge. Most important, perhaps, for us as extension educators was their finding that education

specific to hedging, such as attending a class or seminar on the use of futures, did not significantly impact the percent of their production hedged.

The research of Patrick et. al. on farmers ranking of risk factors and management responses to these risk factors coincides with the findings of Shapiro and Brorsen (table 2). When asked to rank the risk factors in order of their importance, farmers ranked prices first with weather close behind. But when these same farmers were asked to rank management strategies to deal with these risk factors, hedging ranked 20th out of 21 factors, well behind participation in government commodity programs and the purchase of crop insurance. Interestingly, farmers ranked obtaining market information second among the various management responses but placed marketing strategies such as hedging and forward contracting far down the list of important strategies. Although the reasons why farmers ranked these marketing strategies so low are not clear, it's possible that they are influenced by agricultural lender attitudes.

Three hundred seventy members of the Kansas Agricultural Bankers Association were surveyed in December 1986 in an attempt to discern their attitudes toward risk management and various marketing strategies (table 3). The bulk of the lenders surveyed spent a major portion of their time servicing their agricultural loan portfolio's. Forty-five percent of the lenders had agricultural portfolio's that represented over 25% of their total loan volume while 75% of the lenders had agricultural portfolio's that exceeded 50% of their total loan volume. When asked to identify the major sources of variability in a farmers cash flow statement, the agricultural bankers identified the sale price of crops and livestock as the largest source of variability with yield variability second and crop and livestock purchase

prices ranked third. Forty-six percent of the lenders surveyed indicated that, although most farmers start out hedging with futures and options, they usually end up speculating. Unfortunately, in another section of the survey, 73% of the respondents revealed that they did not understand the difference between hedging and speculating by incorrectly identifying at least one hedging strategy (store grain, sell futures) as a speculative strategy. These results conflicted with the lenders assessment of their own knowledge of hedging and the use of options since 58% of the respondents felt that loan officers' understanding of hedging was at least adequate and 38% indicated that loan officers' understanding of the use of options was at least adequate. These results suggest that producers are not being encouraged by very many lenders to broaden their use of marketing tools to include the use of futures and options nor can they reliably look to their lender as a source of marketing information.

Results from Shapiro and Brorsen's workshop survey suggest that extension program participants are more likely to hedge their crops than the general farm population, despite their failure to establish a statistically significant relationship between attending classes on hedging or futures markets and the percent of production hedged. Participants in Kansas State University's monthly marketing/management conference were surveyed in February 1987 to learn more about their marketing practices. Survey response was limited to 405 respondents with 320 of the respondents classifying themselves as full time farmers. Conference material normally focuses on current outlook material for both livestock and grains, marketing strategy advice and farm management information on related topics. Thirty-three percent of the crop farmers had used cash forward contracts in the last five years, 24% had done some hedging

and 19% had used options on crop futures contracts. Farmers responding to a similar set of questions regarding livestock marketing were not as likely to have used the previously identified marketing alternatives with only 7% having done some forward contracting, 16% having done some hedging and a mere 11% having used options on livestock futures contracts (table 4). The percentages of these farmers that have utilized the various marketing alternatives is higher than was noted in the other Kansas surveys and noticeably higher than the percentages observed in the midwest survey conducted by KSU. Since no research controls existed, it is difficult to discern why these farmers seem to be more willing to use marketing tools such as futures contract purchases and sales than producers at large, but it seems probable that their regular exposure to extension programming might have had a significant impact. This hypothesis is in conflict with the findings of Shapiro and Brorsen but is well worth investigating.

The vast majority of farmers still don't use the various marketing alternatives available to them. Shapiro and Brorsen's research suggests that traditional extension programming such as classes on the use of futures and hedging have little impact on farmers decision to hedge. Patrick et. al.'s findings imply that, although farmers perceive price risk as a significant risk factor, they don't view price risk management strategies such as hedging as attractive. The KSU Ag Lender survey indicates that the agricultural banking community is still skeptical of hedging as a risk management tool and, perhaps more importantly, still has a poor understanding of hedging. At least part of the message for agricultural economics extension seems clear. Traditional extension programs that focus on attending a workshop, an evening meeting or even a multi-session class have not been very effective in educating farmers

about the use of marketing tools such as hedging and forward contracting. Agricultural economics extension needs to break the mold and develop new and innovative programming techniques to encourage farmers use of new marketing alternatives.

Some progress is being made along these lines. Programs involving the use of video tapes and accompanying support material are being developed. An increasing number of states are scheduling programs via two-way audio and, more recently, satellite video networks, which give our clientele improved access to up-to-date information in a new format. We need to do more along these lines. We need to find extension programs that help move farmers from the passive to the active state of mind and actually encourage them to "actively market" their production. One such program is the development of Producer Marketing Clubs which encourage farmers to actually try using new marketing alternatives such as futures and options in a group setting before using them in their own farming operation. My colleague Bill Tierney will explain the genesis and operation of Producer Marketing Clubs in Kansas in more detail.

TABLE 1. Marketing Strategies of Kansas Grain Producers

	1972		1983	
	%	Number of Respondents	%	Number of Respondents
Farmers Who Had Ever Hedged	4%	626	7%	477
Farmers Who Had Ever Forward Contracted	12%	613	18%	485

TABLE 2. Relative Importance of Risk Factors and Management Responses to Risk, Selected States, 1983<sup>1</sup>

Risk Factor	Rank of Importance	Management Response	Rank of Importance
Livestock Prices	1	Pacing Investments	1
Weather	2	Market Information	2
Input Costs	3	Financial Reserves	3
Diseases & Pests	4	Enterprise Diversification	4
Inflation	5	Spreading Sales	5
Safety & Health	6	Feed Reserves (Livestock)	6
World Events	7	Credit Reserves	7
Credit Cost	8	Maintaining Flexibility	8
Gov't. Laws & Regs.	9	Prod. Practices Diversification	9
Cost of Capital Equip.	10	Forward Contracting	10
Family Plans	11	Gov't. Commodity Programs	11
Use of Leverage	12	Debt Management	12
Government Programs	13	Inventory Reserves	13
Credit Availability	14	Operator Off-Farm Activities	14
Technology	15	Hail Insurance (Crops)	15
Hired Labor	16	Idling Capacity	16
Leasing Land	17	All Risk Crop Insurance	17
		Family Off-Farm Activities	18
		Geographic Dispersion	19
		Hedging	20
		Gov't. Emergency Credit	21

TABLE 3. Kansas Lender Attitudes on Importance of Risk Factors

Assume a farmer provided you with a monthly cash flow projection for 1987. Which of the following factors do you think would be a major and likely source of variation in the 1987 cash flow projection?

	Mean Rank
1. Commodity prices for crops and livestock SOLD.	2.5
2. Yield variability.	3.0
3. Commodity prices for crops and livestock PURCHASED (feed, and feeder pigs, calves or feeder cattle).	3.9
4. Changes in government programs affecting 1987 sown crops or livestock and dairy operations.	4.2
5. Changes in the cost of seed, fuel, machinery repairs, chemicals or custom services.	4.4
6. Livestock death loss or variability in feed conversion rates.	6.0
7. Injury, illness or death of operator.	6.4
8. Changes in interest rates.	6.5
9. Loss or theft of farm property.	8.2

TABLE 4. Marketing Strategies of Kansas Farmers Attending KSU's Marketing/Management Conferences

	Percentage
Have Ever Developed a Written Marketing Plan	21%
Have Used Cash Forward Contracts (Crops) in the Last 5 Years	33%
Have Used Cash Forward Contracts (Lvstk.) in the Last 5 Years	7%
Have Hedged Crops in the Last 5 Years	24%
Have Hedged Livestock in the Last 5 Years	16%
Have Used Crop Options	19%
Have Used Livestock Options	11%

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