



# Putting The Risk Protection Act of 2000 to Work: Applied Marketing Strategies

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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

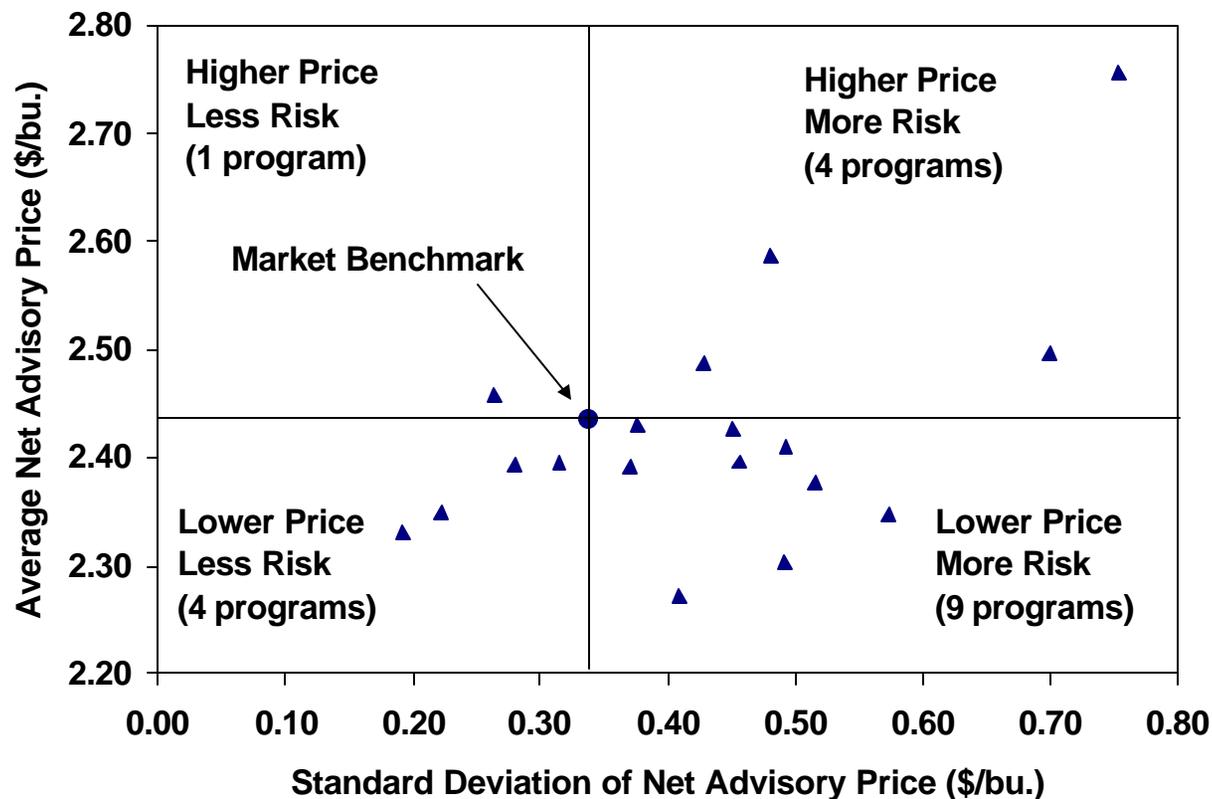
# Simulation of Advisory Service Performance

- 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

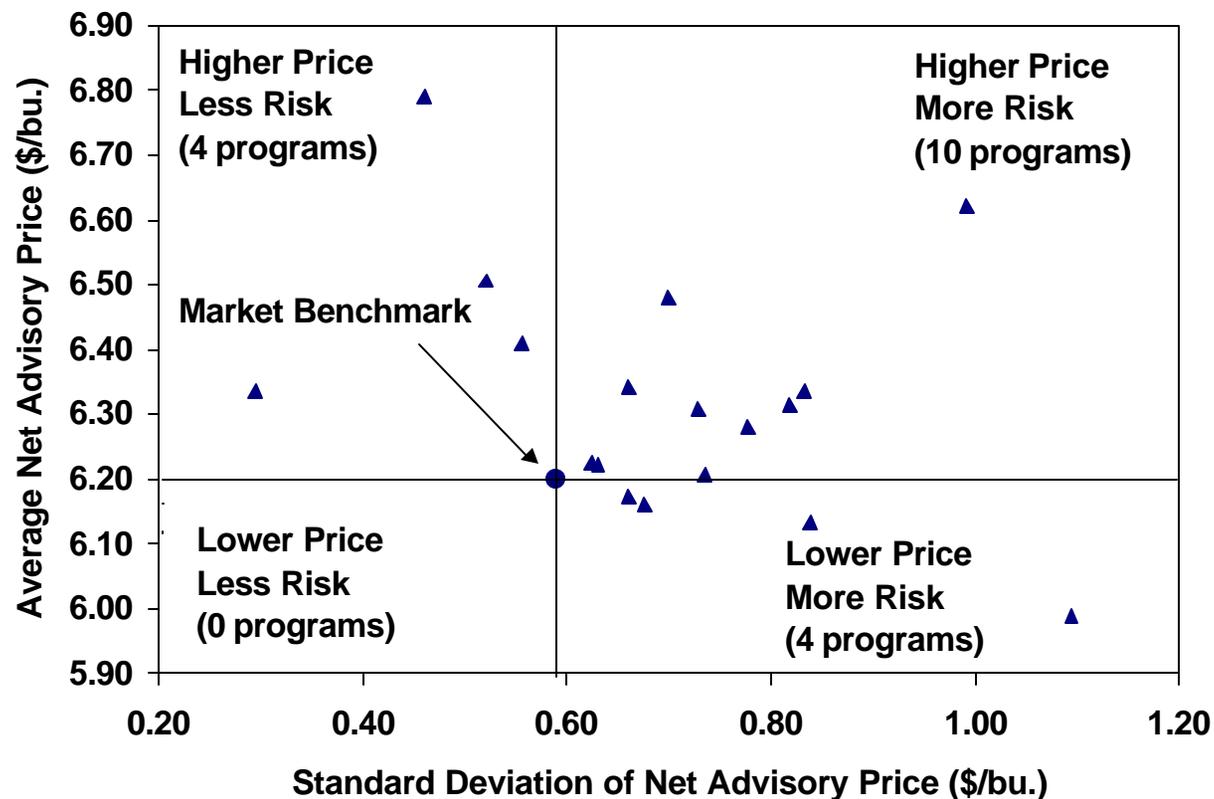
# Average Program Returns Above Market Benchmark

	Corn (¢/bu.)	Soybeans (¢/bu.)	Revenue (\$/acre)
1995	+14	+33	15
1996	-2	+19	2
1997	-1	+10	1
1998	-7	-5	-6
1999	-3	+17	2
<b>1995-99</b>	<b>0</b>	<b>+16</b>	<b>+3</b>

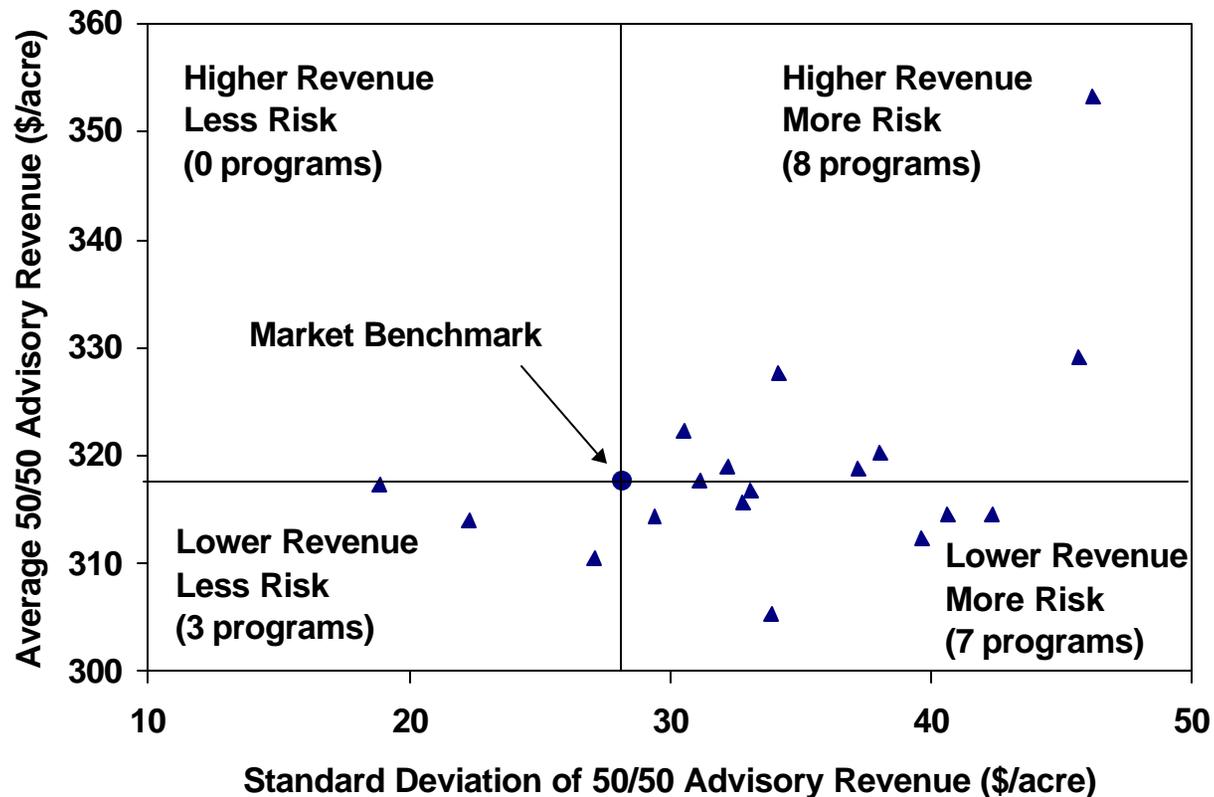
# Pricing Performance and Risk Relative to Benchmark, Corn, 1995-1999



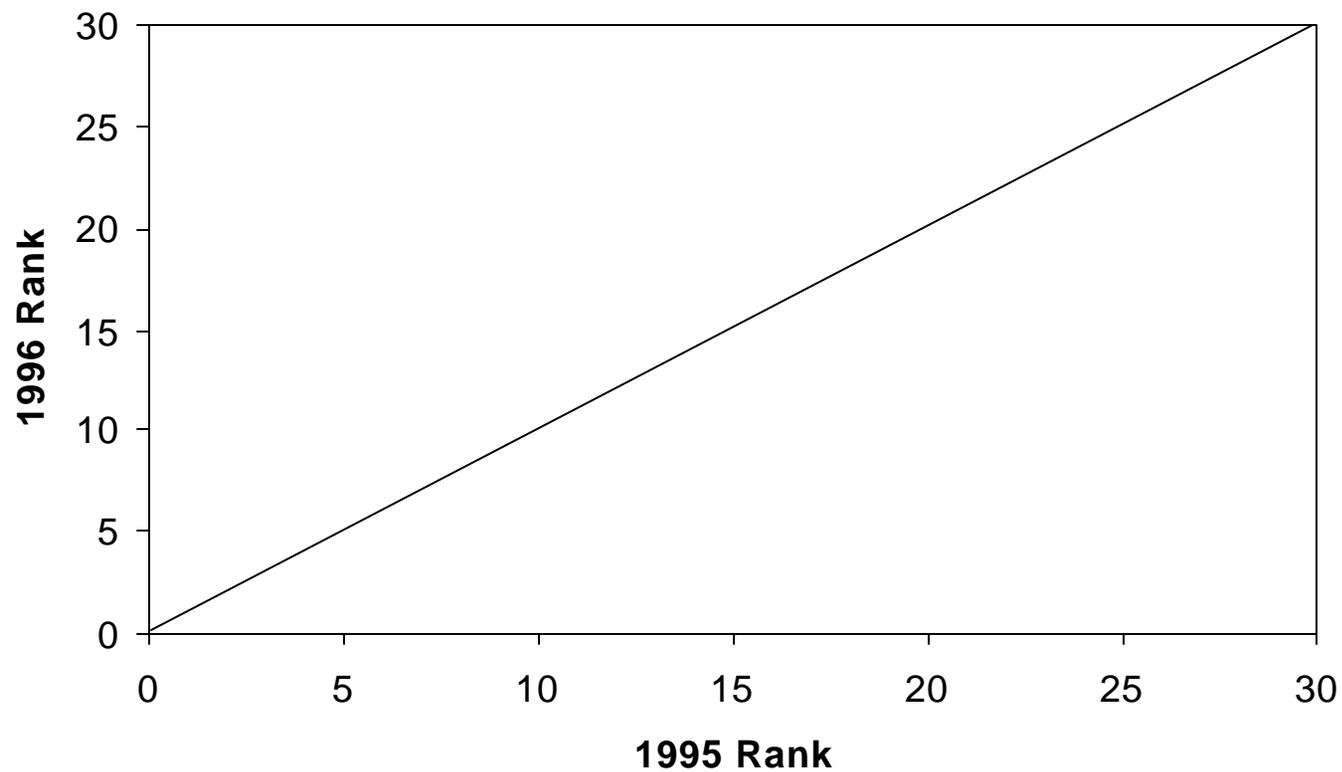
# Pricing Performance and Risk Relative to Benchmark, Soybeans, 1995-1999



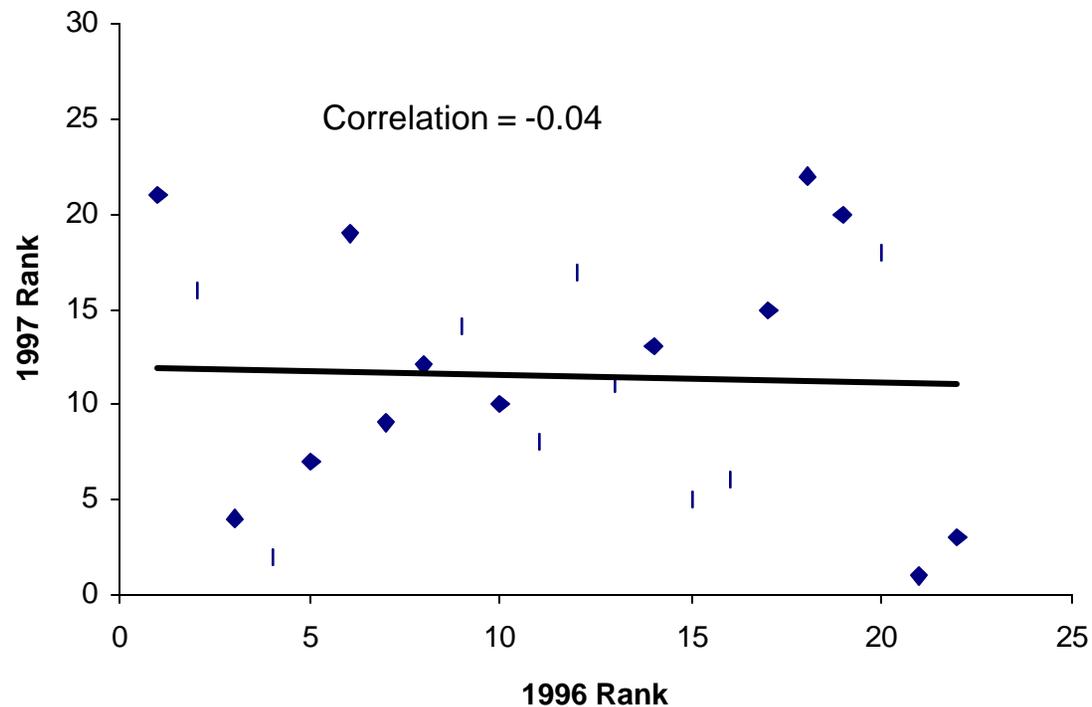
# Pricing Performance and Risk Relative to Benchmark, 50/50 Revenue, 1995-1999



# Perfect Predictability of Advisory Service Program Rank



# Advisory Service Program Rank, Corn, 1996 vs. 1997



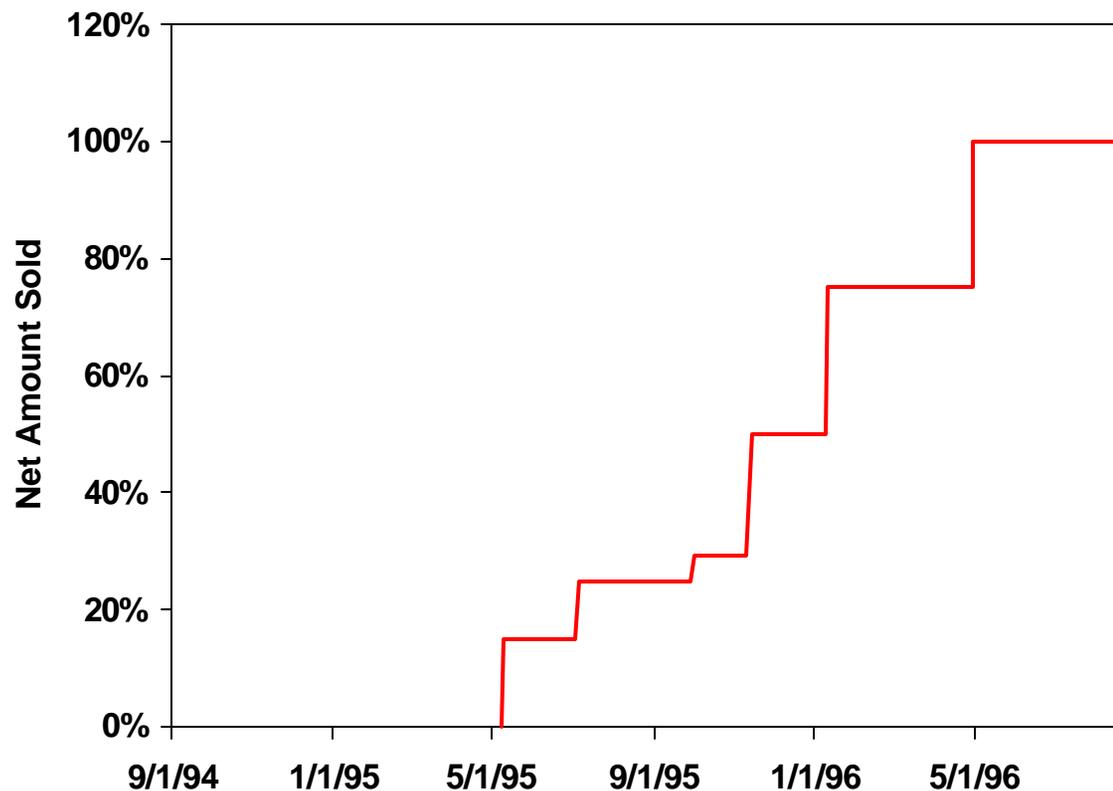
# New Approach to Grain Marketing

- 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

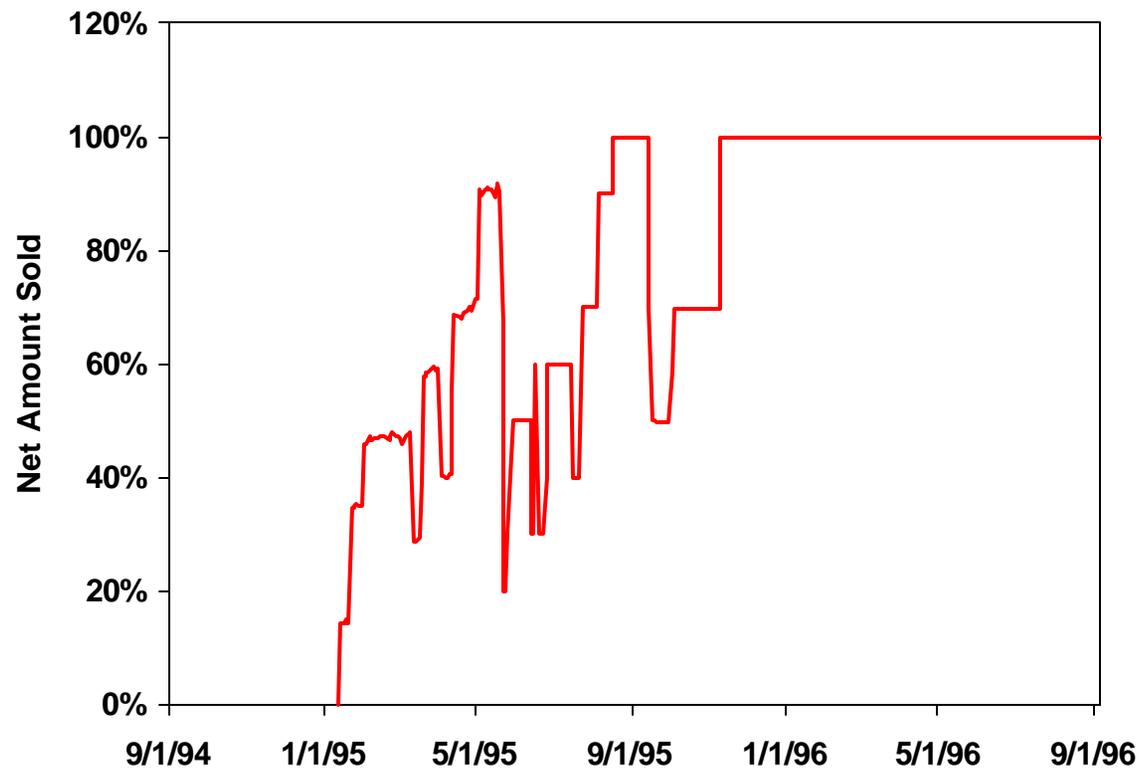
# Active Marketer Needs

- Information
- Analysis
- Education
- Advisor

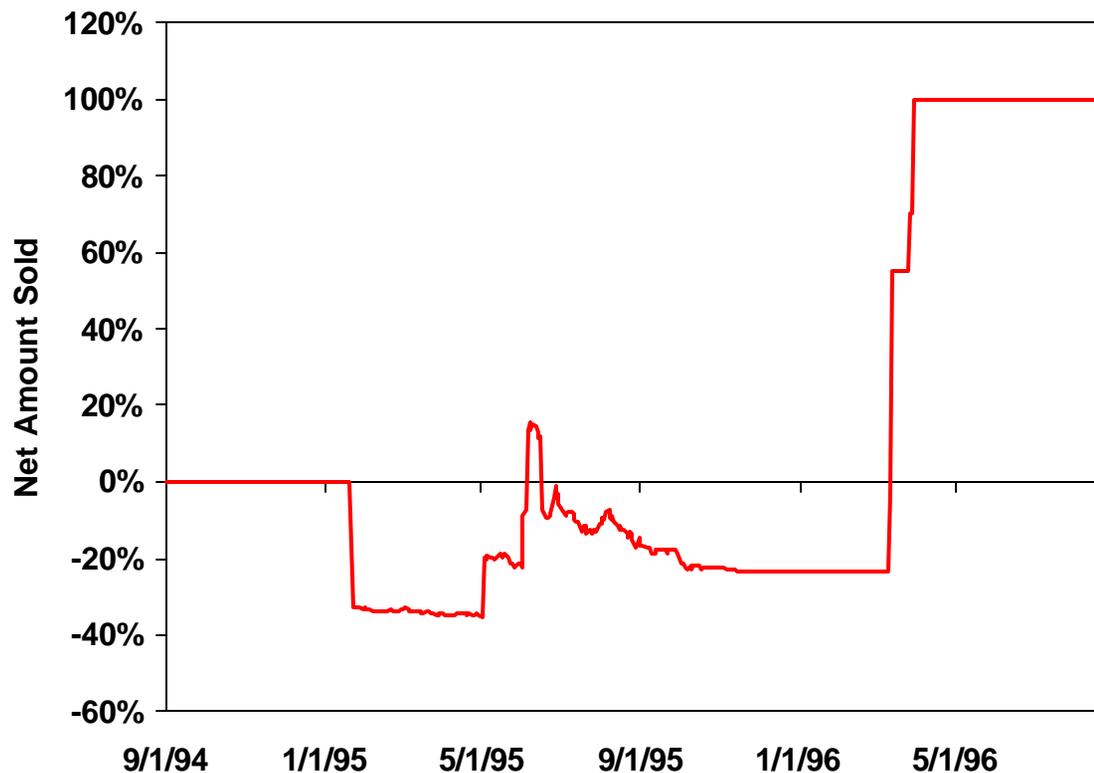
# 1995 Corn Marketing Profile for a "Scale Up" Program



# 1995 Corn Marketing Profile for a “Selective Hedging” Program



# 1995 Corn Marketing Profile for an “Aggressive” Program





## PERFORMANCE PROFILES

Sort the results by clicking the data column headings. Corn is the default.

AgLine by Doane

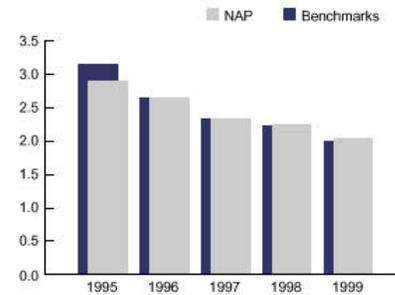
Corn

Soybeans

50/50

Wheat

### PRICING RESULTS



### RETURN/RISK

This would contain a short description of what this information does and how it works.



### 5 YEAR COMPARISON

	1995	1996	1997	1998	1999
<u>NAP</u>	3.15	2.65	2.33	2.32	2.00
<u>MB</u>	2.90	2.65	2.33	2.34	2.45
NAP Avg.	2.90	2.65	2.33	2.34	2.45
Rank	5/28	10/23	11/21	8/20	20/25
Price Range*	M	M	B	T	B

\* T = Top M = Middle B = Bottom

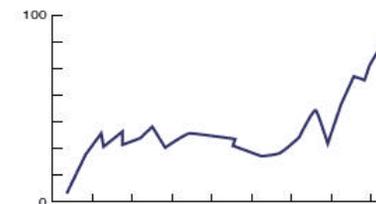
### Contact Information

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### MARKET PROFILE

This would contain a short description of what this information does and how it works.

1999



# 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

# Contacting the AgMAS Project

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