



Connecticut Farm Risk Management and Crop Insurance Program

Managing Marketing Risk

INTRODUCTION

MARKETING PRACTICES ALLOW YOU TO DERIVE FINANCIAL GAINS FROM YOUR PRODUCTION ACTIVITIES. MARKETING RISK STEMS FROM UNCERTAINTY IN THE MARKET FOR YOUR PRODUCT. FOR EXAMPLE, THE PRICE YOU WILL RECEIVE FOR YOUR PRODUCT IS NOT USUALLY GUARANTEED AS IT IS SENSITIVE TO THE EVER FLUCTUATING MARKET.

A PRINCIPAL ISSUE LINKED WITH MARKETING A PRODUCT IS THAT YOU ARE SUBJECTED TO OUTSIDE FACTORS BEYOND YOUR CONTROL. WEATHER, PESTS, AND DISEASE CAN LIMIT THE AMOUNT OF PRODUCT YOU HAVE TO SELL. THEY CAN ALSO CHANGE THE INDUSTRY PRICE FOR VARIOUS PRODUCTS. IF YOU SELL DIRECTLY TO CONSUMERS, AS OPPOSED TO ANOTHER BUSINESS, YOU MUST CONSIDER INDIVIDUAL WANTS AND NEEDS. THE CHOICES YOU MAKE CAN INFLUENCE YOUR LEVEL OF PROFITABILITY. THE MOST EFFECTIVE WAY TO GUARD AGAINST MARKETING RISK IS TO HAVE A PLAN.

Marketing Considerations

The USDA identifies three important marketing considerations that are essential to any marketing plan. Firstly, you must know what level of risk you are comfortable dealing with. To make this determination, outline your financial situation and become familiarized with the outcomes of each potential decision. Understanding your level of risk tolerance will help to reduce some of the uncertainty associated with marketing decisions.

Secondly, you must be willing to enhance your marketing skills. This may require you to seek professional assistance.

Thirdly, you should develop an integrated management approach to your business. This means that you should consider all farm operations when making marketing decisions.

Product Markets

There are many options for selling various products. These include wholesale, cooperatives, retail stores, roadside stands, farmers' markets, pick-your-own, and processing. Each of these opportunities requires extensive research on the seller's part as it is essential to select the option(s) that best suit the farm's needs. If you choose to sell your products on the wholesale market, you will be subjected to industry pricing, which

means the risks of fluctuation. However, if you feel that the wholesale market is the best place for your product, you may want to consider joining a cooperative.

Selling directly to your local grocery store allows you to obtain a higher price for your product, but you will be investing a lot of time into developing a relationship with the grocery store in order to convince the owner to buy from you.

Roadside stands, farmers' markets, and pick-your-own allow you to sell your product directly to the consumer. Many consumers find this option very appealing during the spring and summer seasons because it allows them to have more control over what they are purchasing and at what price.

On the downside, there are some liability issues associated with these endeavors. Seeking professional assistance is extremely important in order to make certain that you are properly insured and protected against liability issues.

Developing a Marketing Plan

The most effective way to guard against marketing risk is to have a plan. Your plan should center around the goals and objectives that have been established for your farm. A good place to start is to evaluate your production costs.

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Sometimes the market price will not cover your production costs. You need to accurately identify at what price this might occur. Other financial considerations must be taken into account including cash flow requirements, such as family living expenses. Next, improve your understanding of supply and demand for your product. The USDA provides supply and demand projections that can be extremely valuable tools.

Lastly, you should become familiarized with local competition. What is the average selling price of your good?

What were the average selling prices in past years? Who is my biggest competitor? What marketing approaches are my competitors utilizing? How can I improve upon marketing tactics already being used locally?

You may significantly benefit from seeking professional assistance to help you develop an effective marketing plan. Take advantage of resources offered within your community as well as government services designed specifically for small farm owners.

References

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