

# GRAIN MARKETING IN THE EAST

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What is the Ideal Extension Marketing Program?

July 26, 2006  
Long Beach, CA

## Content of my program in general

- **I aim for the content of my extension marketing program to be**
  - **research-based**
  - **current with empirical support**
    - actual basis estimates
  - **creative in communication**
    - good examples
  - **timely**
    - within a week of current events/reports
  - **never the same presentation twice**
  - **devoid of any predictions or advice**

## Content of my marketing program

- **The mechanics and important underlying relationships are spelled out in a handbook that I co-authored**
  - price risk, futures prices, basis
  - how basis varies locally (NC, GA, SC)
  - using basis to manage risk
  - govt. programs and how do they influence price risk management

<http://www.ag-econ.ncsu.edu/faculty/piggott/handbook.htm>

## Content of my marketing program....

- **Handbook comes with**
  - supplementary ppts that can be downloaded
  - a database of historical prices for all local markets in NC, SC, and GA 1997-2005
    - users can download spreadsheet
    - can easily tailor examples using “real data”
- **Try to integrate it into the “big picture” of risk management...**

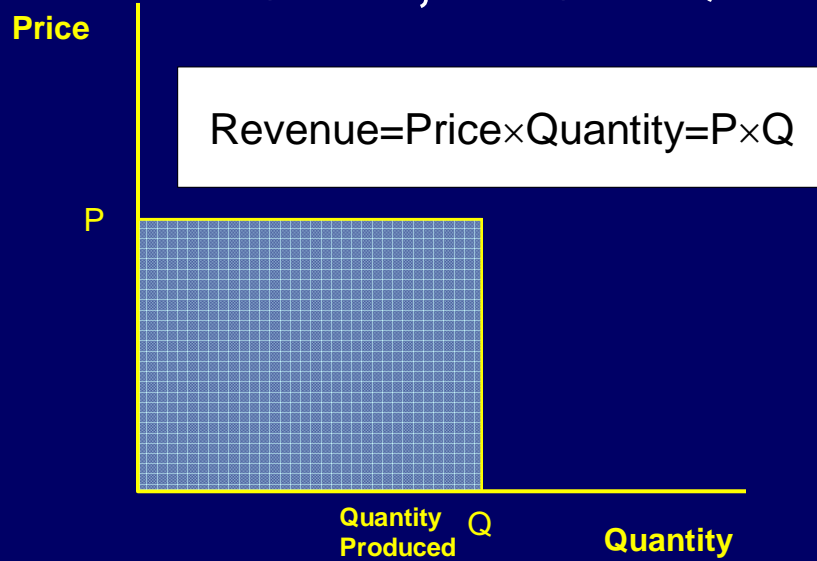
## Content of my risk management program

- **For risk management and *important statistical concepts and relationships* I co-authored another manual that spells out**
  - understanding and visualizing risk
  - measuring your risk
  - managing your risk
  - marketing
  - putting it all together

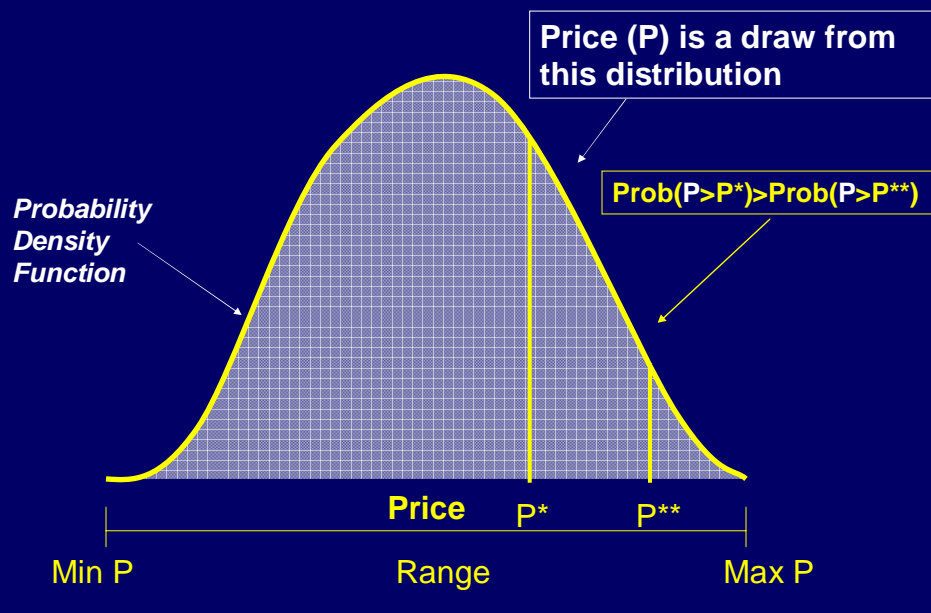
## Content of my risk management program....

- **During workshops I start with *big picture* concepts before getting into individual components**
  - employ illustrative graphs
  - appeal to real-life examples throughout using real historical numbers
- **Spend the rest of my time walking through some of these..**

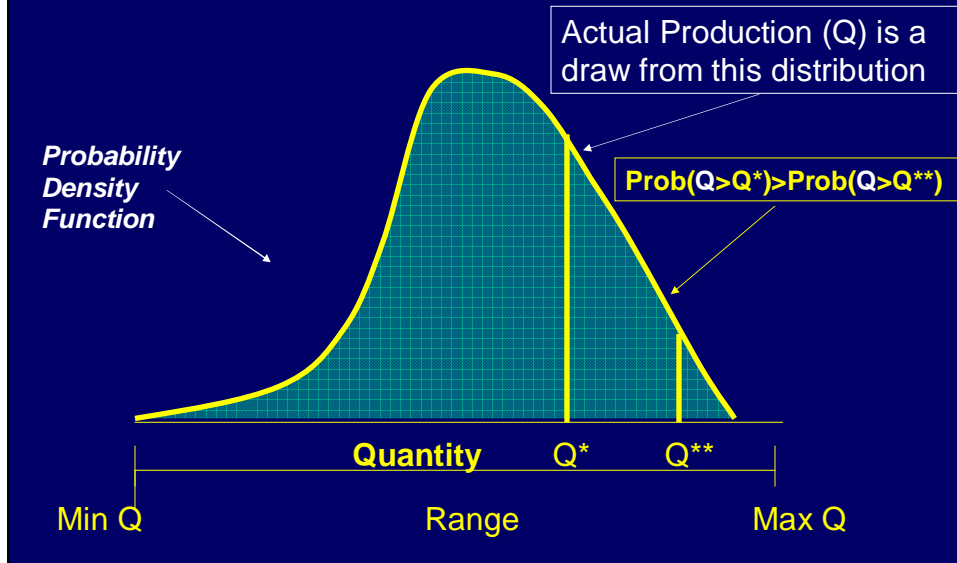
# Revenue Risk: Manage $P \times Q$ ; Not Just P, Not Just Q.



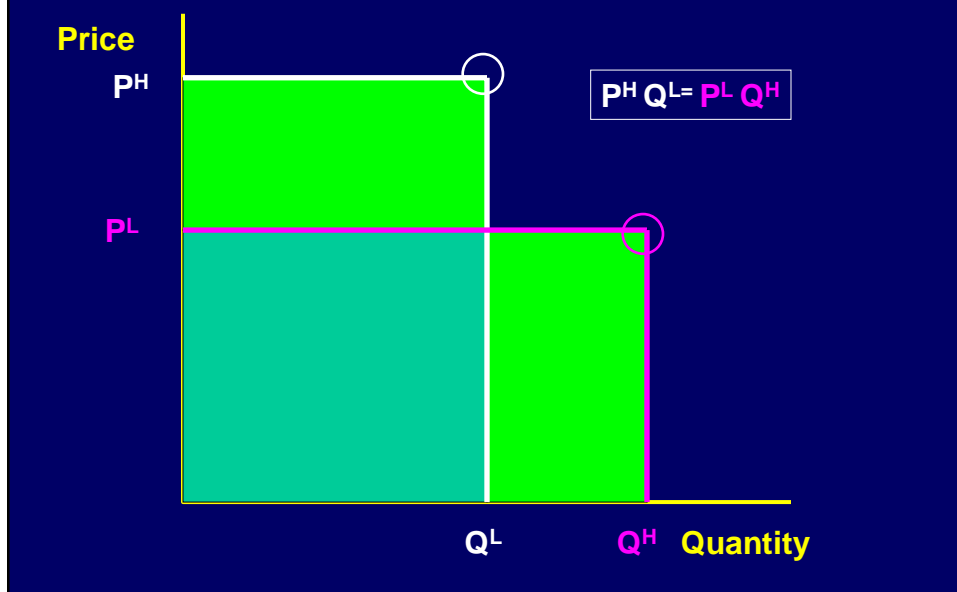
# Price is a Random Variable

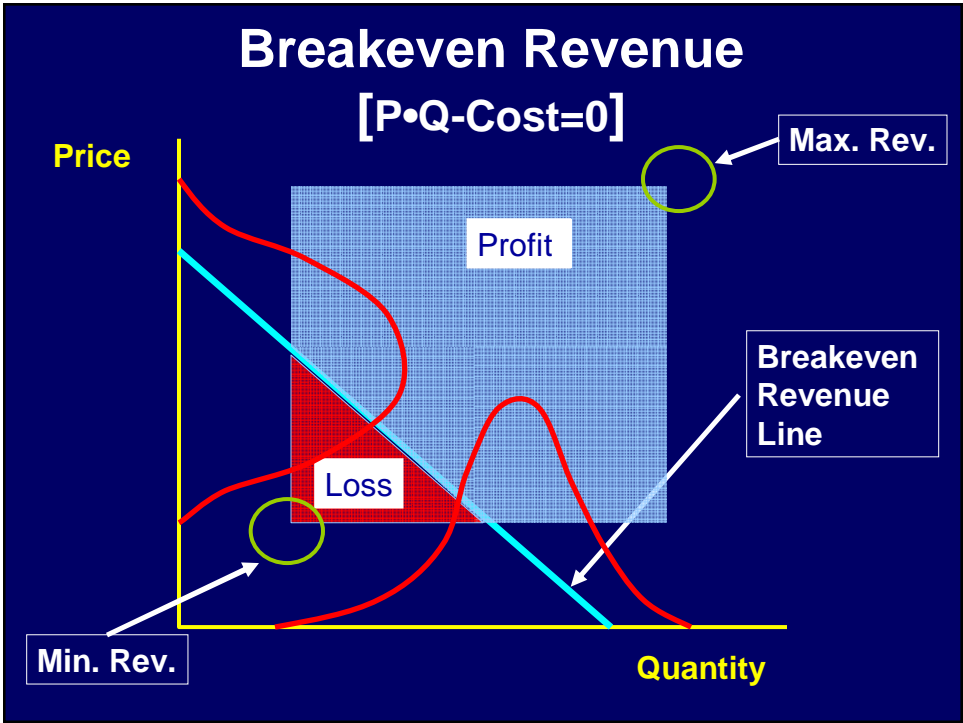
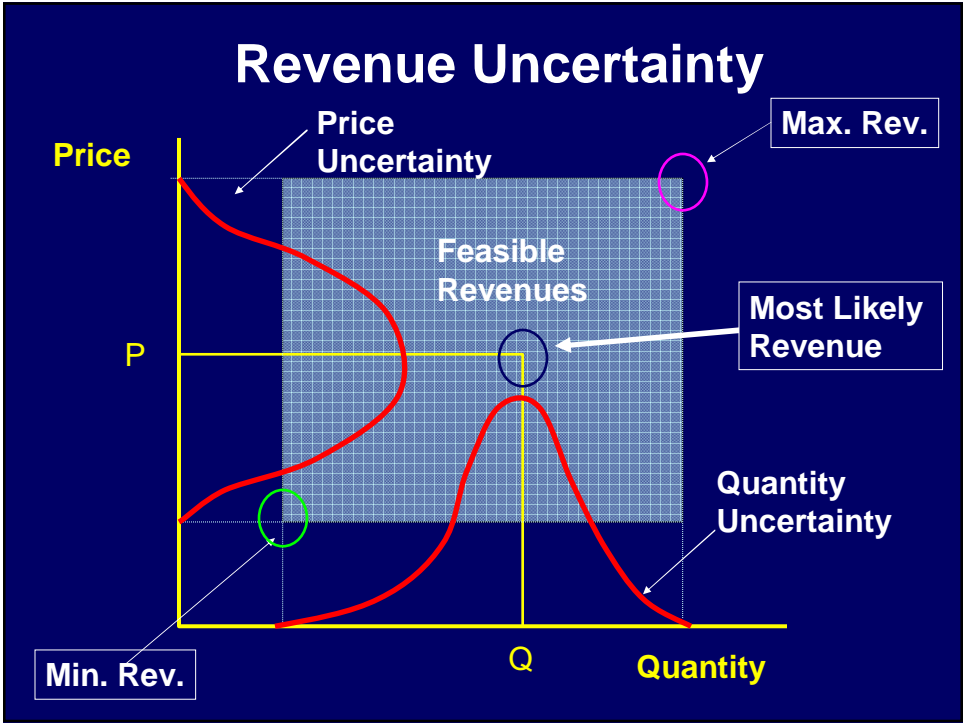


# Quantity Produced [Harv. Ac $\times$ Yield/Ac] is a Random Variable

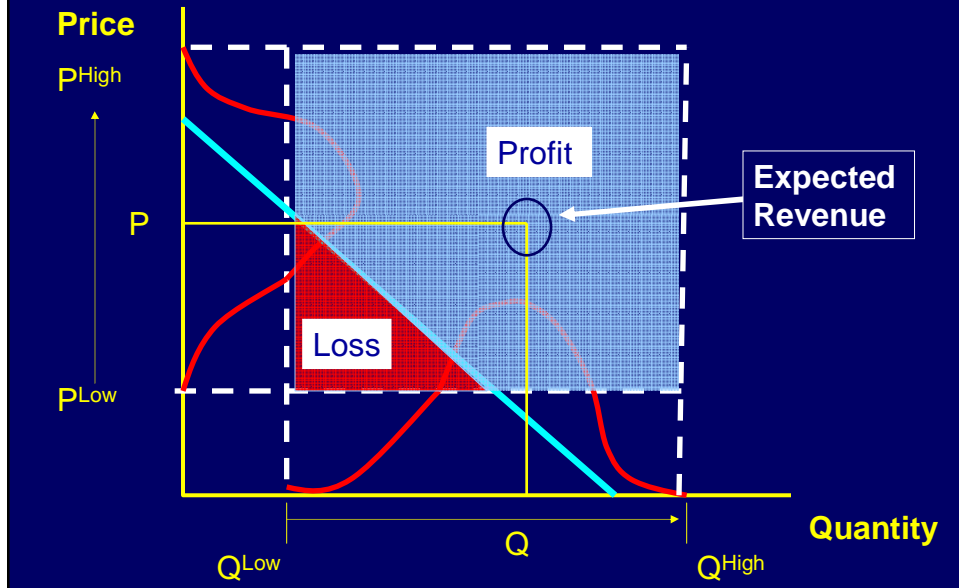


# Offsetting Effect of P & Q

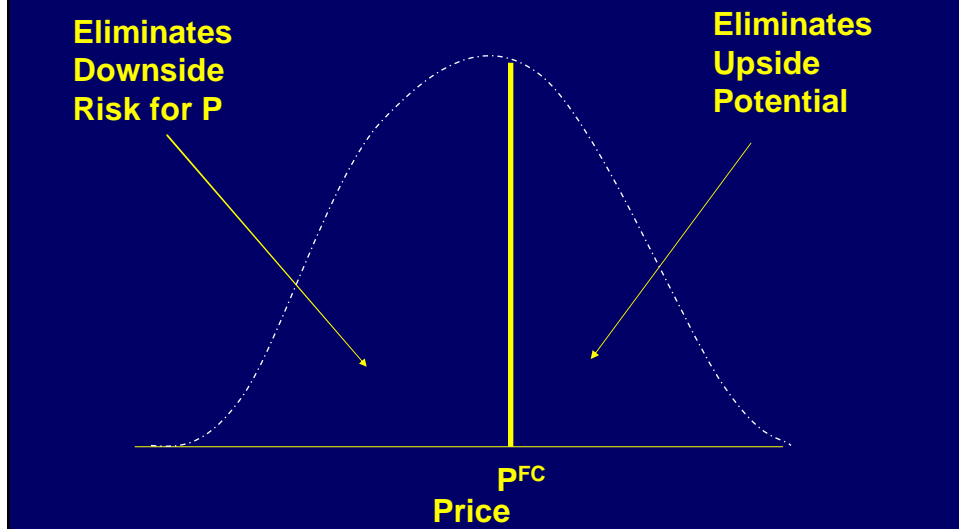




## Challenge: Making a Profit



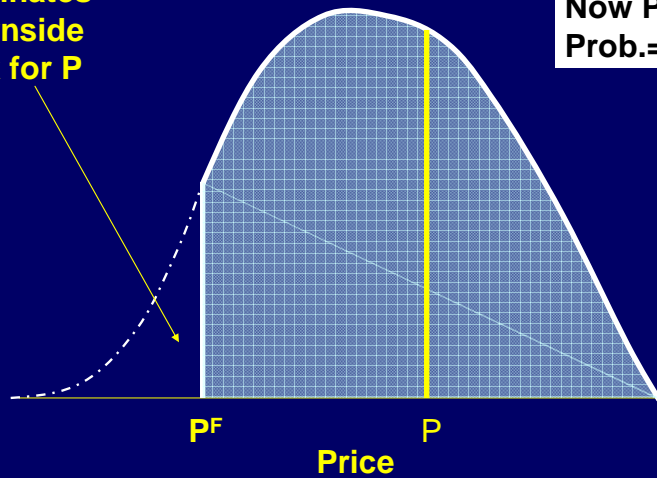
## Price Risk Management—Locking in a Price ( $P^{FC}$ ) [Forward Contract]



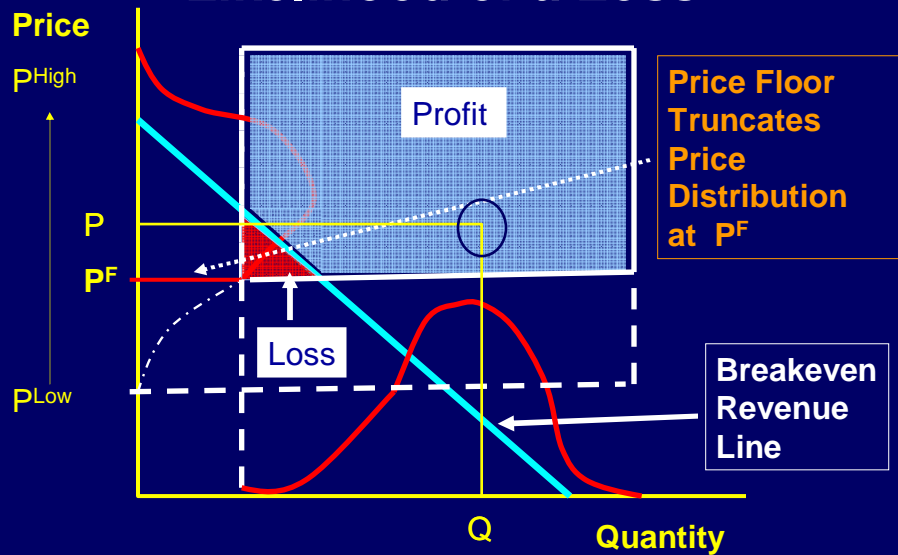
# Price Risk Management— Establishing a Floor ( $P^F$ ) [Hedging with Futures or Put Option]

Eliminates  
Downside  
Risk for P

Now  $P \geq P^F$  with  
Prob.=1



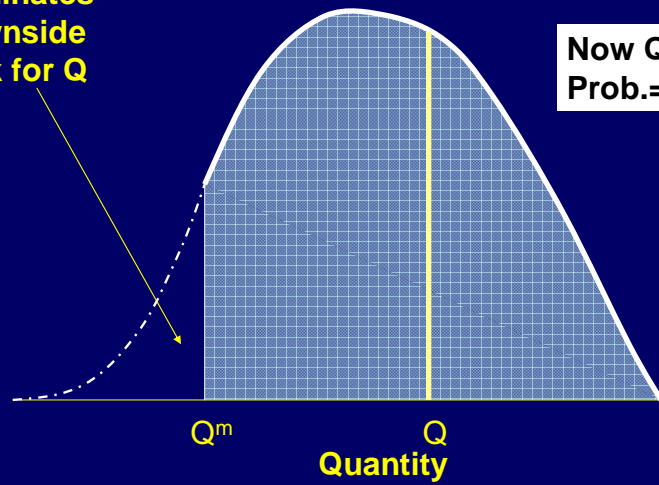
# Price Risk Management: Reduce Likelihood of a Loss



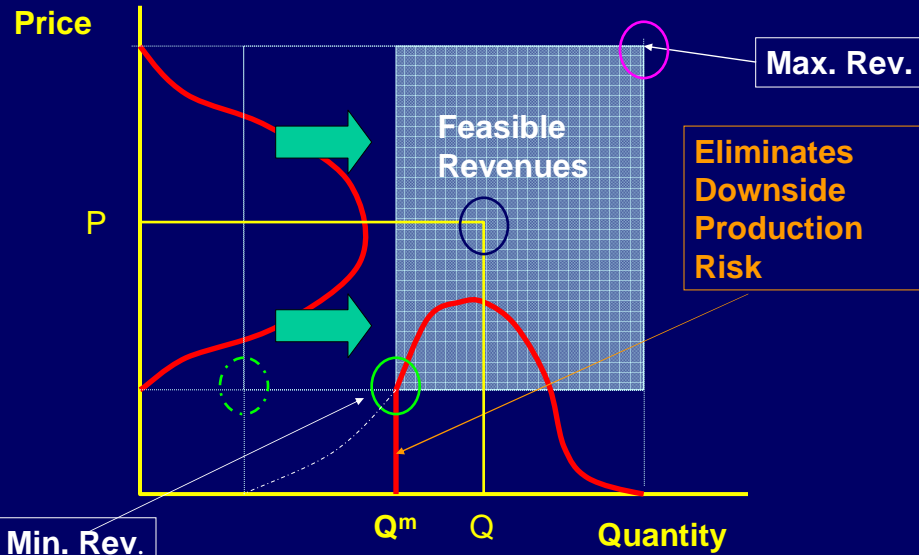


# Production Risk Management— Establish Min. Level of Q ( $Q^m$ ) [Crop Insurance *APH* or *CRC*]

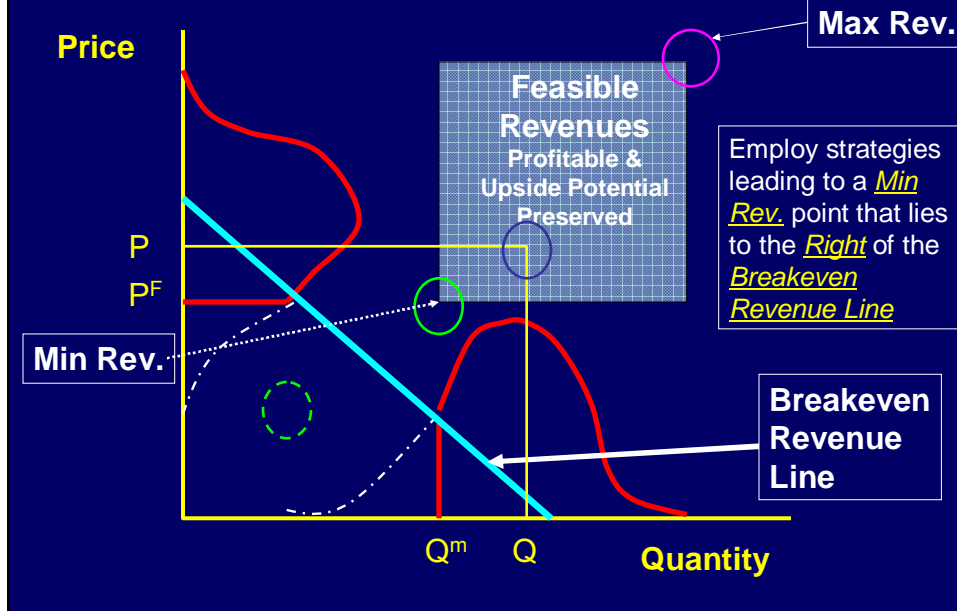
Eliminates  
Downside  
Risk for Q



# Establish Min. Level of Q ( $Q^m$ ) [Crop Insurance: *APH* or *CRC*]



## Putting It All Together



## Final Remarks

- **Marketing is one of the most difficult areas to teach in extension**
  - subject that most say is their weakest point
- **Easier for yourself and more interesting using innovative ways to teach difficult concepts**
  - pepper material with relevant and real life examples (know the markets and trends etc)
- ***Avoid giving marketing advice at all times***
  - invoke the efficient market hypothesis and make no predictions but do appeal to historical behavior
  - focus on current state of affairs and what we have to work with to evaluate options under different scenarios