



Managing Risk: the Master Marketer Program

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Introduction

Volatile commodity prices, high input costs, and increased competitive pressures challenge producers to adopt risk management skills to increase the likelihood of survival and profitability. Farm programs are increasingly taking a market-oriented approach, making producer's ability to manage price and production risk more important. One of the most successful programs in teaching risk management to agricultural producers has been the intensive educational effort of the national award winning Master Marketer Program. The unique structure of the Master Marketer course--a 64-hour program conducted over 8 weeks--contributes to the program's success--success measured by knowledge gained, strategies implemented, and increased net farm income. Since program initiation in 1996, twenty-six Master Marketer programs have been conducted in Texas with 1,085 graduates.

Overview of the Master Marketer Program

Several founding principles make the Master Marketer Program successful. First, all subject matter is taught at a highly applied rather than theoretical level so producers see the relevance of what is being taught. Second, a combination of teaching techniques are utilized to maximize learning effectiveness including lecture, problem solving, small group work simulation exercises, and game playing. The program is taught by the best instructors available. Speakers are selected on the basis of their expertise and communication skills, regardless of university affiliation. And finally, spreading the program out over 8 weeks provides time for program content to sink in, for

participants to return with questions, consideration of a wide range of what if scenarios, and relationship building and networking.

The program consists of a one-day optional session and four two-day sessions. The optional one-day Leveling Workshop reviews the basics of futures and options markets. It is assumed that Master Marketer participants have at least a working knowledge of futures and options markets. The Leveling Workshop provides a foundation for those who do not and a refresher for those that need it.

Session I builds the foundation of price risk management starting with crop and livestock budgets and break even calculations. A quick review of futures and options markets is provided for the whole class and alternative pricing strategies are taught, including contracting, pool marketing, storage, as well as futures and option based marketing tools. This session also considers how seasonal trends in commodity markets can be incorporated into the marketing plan, for both inputs and output, and legal issues from contracting, lease agreements, and succession planning. Participants break into commodity groups and begin development of a marketing plan for the coming year. These groups meet at the end of each session to refine their marketing plan.

The two days of Session II are devoted to two topics: Technical Analysis and Crop Insurance. With the influence of managed money and high frequency trading on electronic trading platforms, an understanding of trading tools implemented by speculators in futures markets is an important element of price risk management. A full day of crop insurance is provided so producers can not only better understand alternatives in production risk management, but also how crop insurance revenue guarantees enhance marketing opportunities.

Session III is devoted fundamental analysis, specifically weather, cotton, and grain fundamentals. Participants then get to practice their marketing skills in a cotton and grain marketing simulation game, based on a real marketing year from history. Session III includes the basics of financial analysis and important considerations on working with a lender and a commodity broker.

Session IV concludes the program with a focus on livestock fundamentals and forage and rainfall insurance products. Another award winning market simulation exercise, “The Packer/Feeder Game”, is used to practice marketing decision making. A final presentation ties all the material of Master Marketer together, emphasizing marketing discipline and marketing plan implementation. The program closes with each commodity group presenting its final marketing plan. This serves as a template for graduates to design and use in their own operations.

Demographics of Master Marketer Participants

With an average age of 45, Master Marketers are younger than the average Texas farmer whose average age is 59 years (USDA-NASS, 2009). Master Marketers manage an average of 2,422 crop acres, placing them in the 95th percentile of all farms in Texas. Master Marketers have a median gross income of \$437,500. According to the Census of Agriculture only 4.2% of farms in Texas report gross incomes of \$250,000 or more. The tendency for Master Marketer graduates--producers who are younger, have larger scale operations, and have received marketing training--to use futures and options is consistent with other studies that found these characteristics to be important in the use of futures and options for price risk management

(Musser, Patrick, and Eckman, 1996; Goodwin and Schroeder, 1994; Makus, Lin, and Krebill-Prather, 1990; Asplund, Forster, and Stout, 1989).

Program Impact

A key component of Master Marketer is program evaluation. Specific session evaluations and pre- and post-subject matter tests ascertain program effectiveness and the amount of knowledge gained by participants at the time of the course. A 2½-year post-program survey of participants evaluates the implementation level and economic impacts of concepts learned in the Master Marketer training. Master Marketer graduates report a consistent increase in their understanding and willingness to use marketing concepts ranging from budget analysis, developing a marketing plan, general risk management, and crop and livestock marketing strategies including futures and options (McCorkle, Waller, Amosson, Bevers, and Smith 2009). To date, surveys of over 1,000 Master Marketer graduates since 1996 attribute increased returns on average of 4.7% or \$34,806 per participant per year to the Master Marketer program.

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