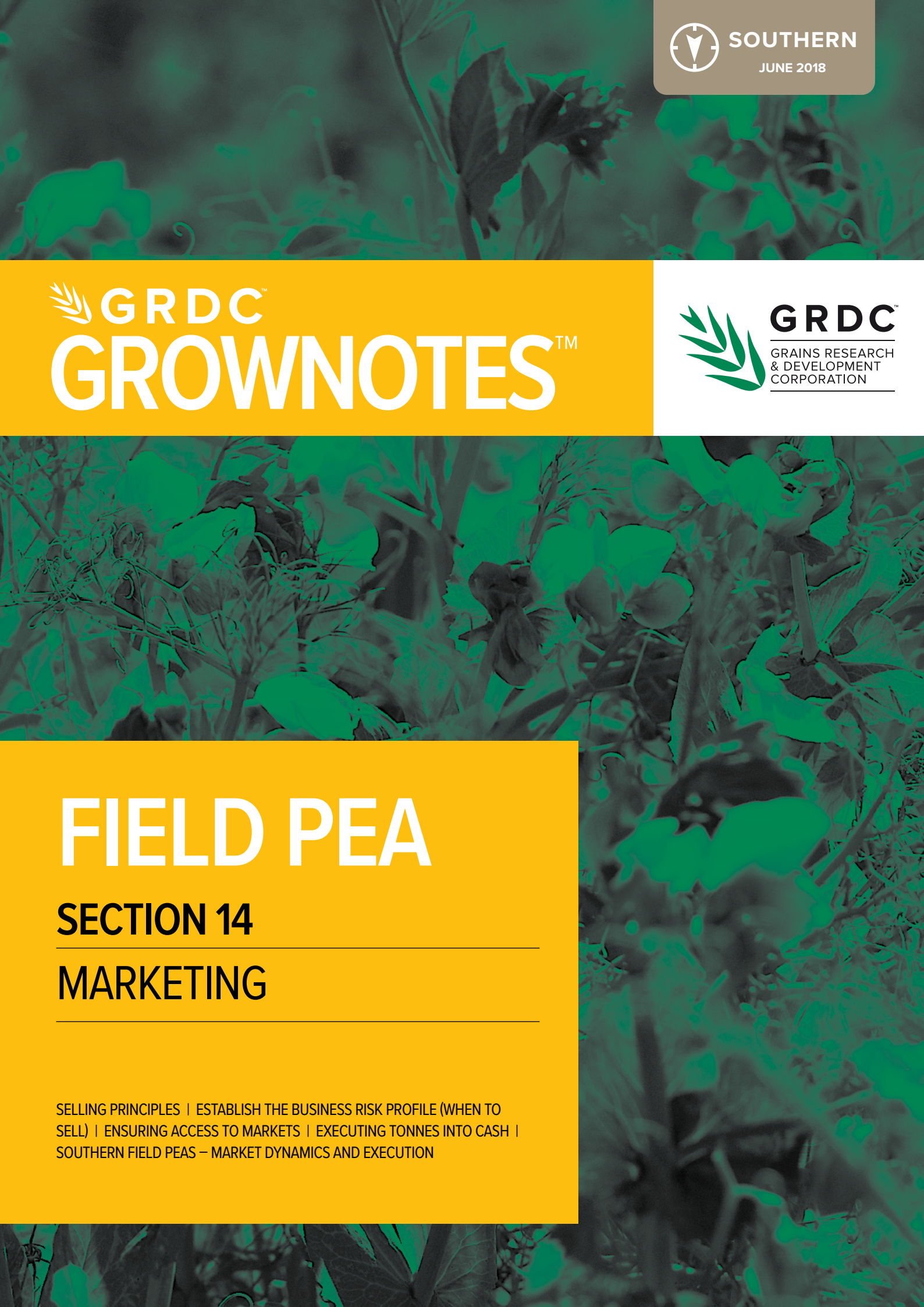


SOUTHERN
JUNE 2018

GRDC GROWNOTES™

GRDC
GRAINS RESEARCH & DEVELOPMENT CORPORATION

FIELD PEA

SECTION 14

MARKETING

SELLING PRINCIPLES | ESTABLISH THE BUSINESS RISK PROFILE (WHEN TO SELL) | ENSURING ACCESS TO MARKETS | EXECUTING TONNES INTO CASH | SOUTHERN FIELD PEAS – MARKET DYNAMICS AND EXECUTION

MORE INFORMATION

The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) released its latest report in mid June 2017,

http://data.daff.gov.au/data/warehouse/aucrpd9abcc003/aucrpd9aba_20170614_uPOax/AustCropRrt20170614_v1.0.0.pdf

Australian Crop Report: June 2017 No. 182 is a quarterly report with a consistent and regular assessment of crop prospects for major field crops, forecasts of area, yield and production and a summary of seasonal conditions on a state by state basis.

It reports that the area planted to cereal crops is expected to decrease, but the area planted to canola, chickpea and lentil is forecast to increase.

For details on national receival standards please see Section 11.11 Receival standards or visit http://www.pulseaus.com.au/storage/app/media/markets/20160801_Pulse-Standards.pdf

Marketing

The final step in generating farm income is converting the tonnes produced into dollars at the farm gate. This section provides 'best in class' marketing guidelines for managing price variability to protect income and cash flow.

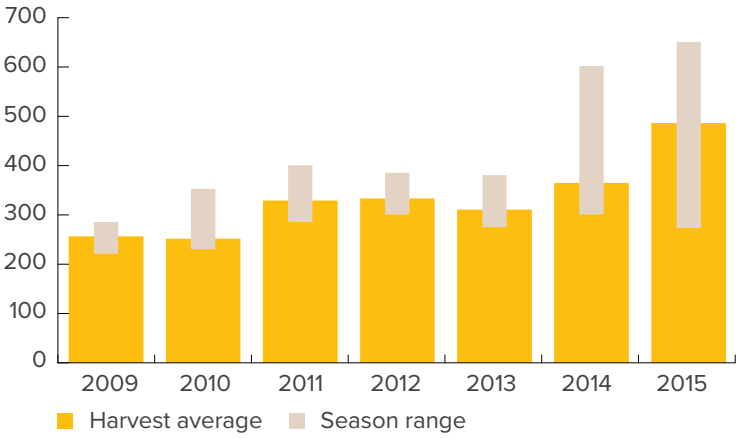


Figure 1: *Intra-season variance of Port Adelaide field pea values.*

Note: Port Adelaide field pea values have varied from A$60–$370/t over the past 7 years (representing variability of 30–60%). For a property producing 200t of field pea this means $12,000–$74,000 difference in income, depending on timing of sales.

Source: Profarmer Australia

14.1 Selling principles

The aim of a selling program is to achieve a profitable average price (the target price) across the entire business. This requires managing several unknowns to establish the target price and then working towards achieving that target price.

Unknowns include the amount of grain available to sell (production variability), the final cost of that production and the future prices that may result. Australian farm-gate prices are subject to volatility caused by a range of global factors that are beyond our control and difficult to predict.

The skills growers have developed to manage production unknowns can be used to manage pricing unknowns. This guide will help growers manage and overcome price uncertainty.

14.1.1 Be prepared

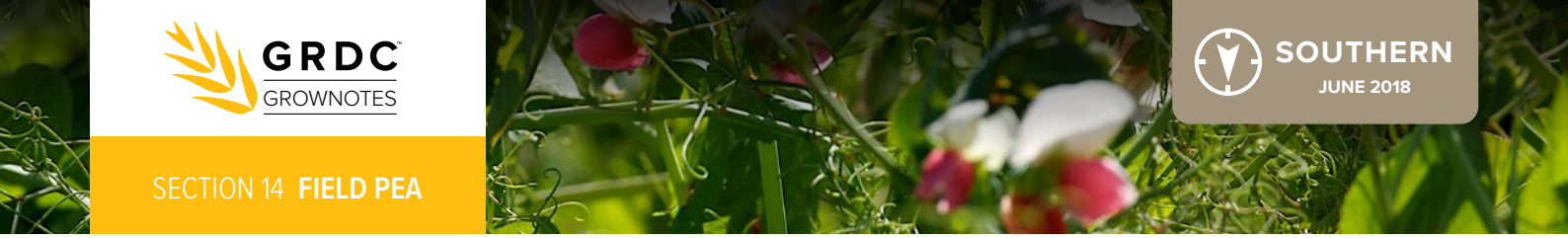
Being prepared and having a selling plan aer essential for managing uncertainty. The steps involved are forming a selling strategy and a plan for effective execution of sales.

A selling strategy consists of when and how to sell:

1. When to sell

This requires an understanding of the farm's internal business factors including:

- production risk
- a target price, based on cost of production and a desired profit margin
- business cash-flow requirements.



FEEDBACK

2. How to sell?

This is more dependent on external market factors including:

- time of year determines the pricing method
- market access determines where to sell
- relative value determines what to sell.

Figure 2 lists key selling principles when considering sales during the growing season.

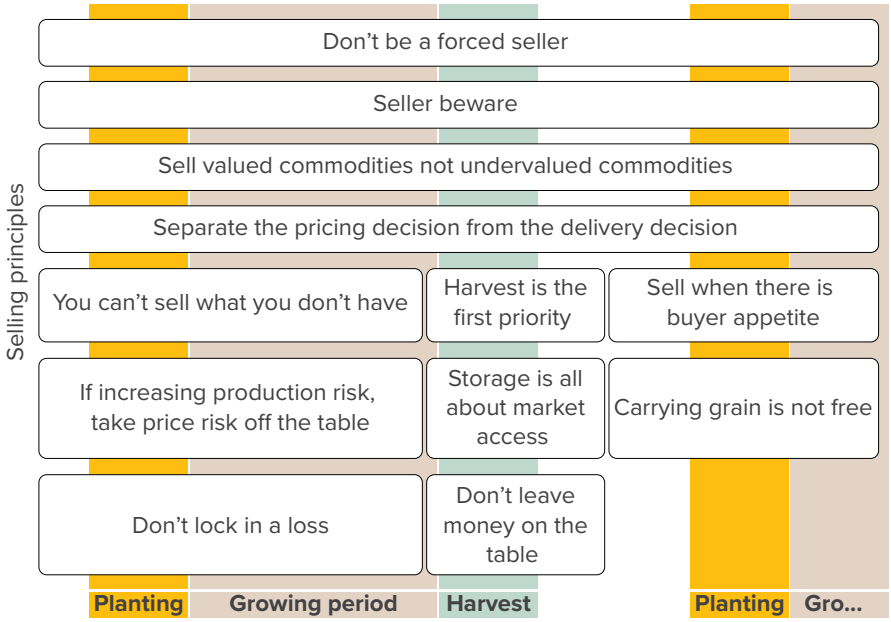


Figure 2: *Grower commodity selling principles timeline.*

Note: The illustration demonstrates the key selling principles throughout the production cycle of a crop.

FEEDBACK

14.2 Establish the business risk profile (when to sell)

Establishing your business risk profile allows the development of target price ranges for each commodity and provides confidence to sell when the opportunity arises. Typical business circumstances and how to quantify those risks during the production cycle are described in Figure 3.

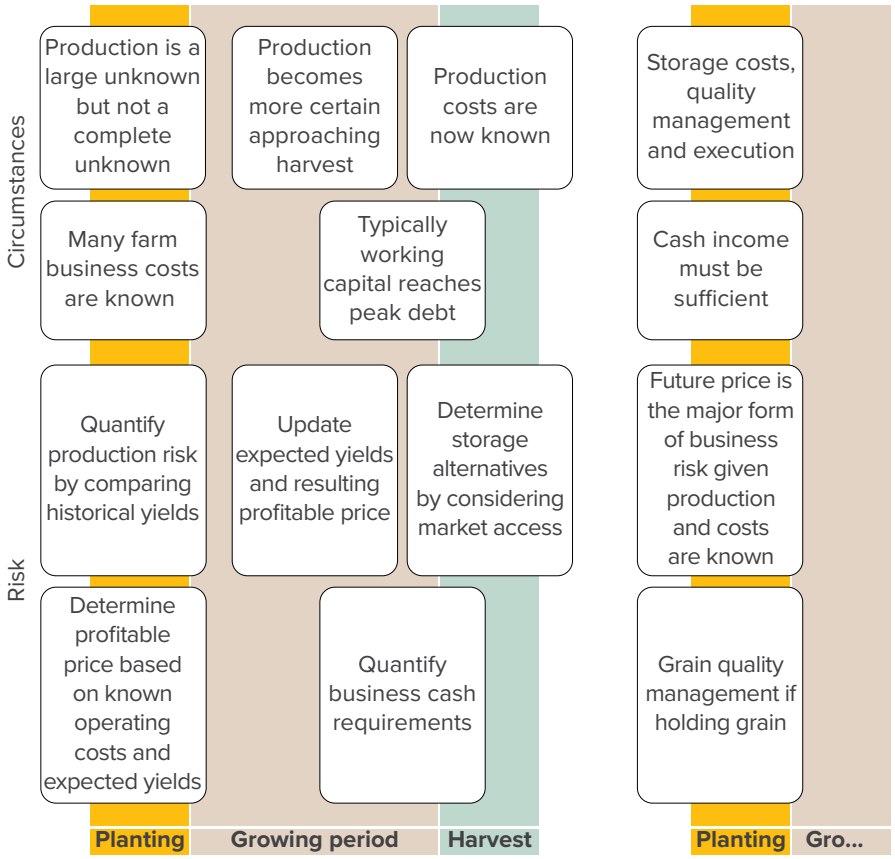


Figure 3: *Typical farm business circumstances and risk.*

When does a grower sell their grain? This decision is dependent on:

- Does production risk allow sales? And what portion of production?
- Is the price profitable?
- Are business cash requirements being met?

14.2.1 Production risk profile of the farm

Production risk is the level of certainty around producing a crop and is influenced by location (climate and soil type), crop type, crop management and time of the year.

Principle: 'You can't sell what you don't have' – don't increase business risk by overcommitting production.

Establish a production risk profile by:

- Collating historical average yields for each crop type and a below-average and above-average range.
- Assess the likelihood of achieving average based on recent seasonal conditions and seasonal outlook.
- Revising production outlooks as the season progresses.

FEEDBACK

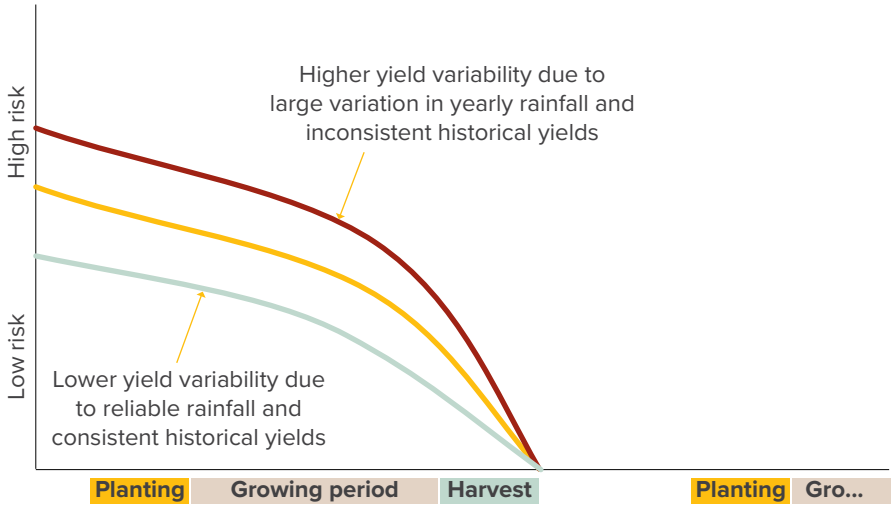


Figure 4: *Typical production risk profile of a farm operation.*

Note: The quantity of crop grown is a large unknown early in the year, however not a complete unknown. 'You can't sell what you don't have' but it is important to compare historical yields to get a true indication of production risk. This risk reduces as the season progresses and yield becomes more certain. Businesses will face varying production risk level at any given point in time with consideration to rainfall, yield potential soil type, commodity etc.

14.2.2 Farm costs in their entirety, variable and fixed costs (establishing a target price)

A profitable commodity target price is the cost of production per tonne plus a desired profit margin. It is essential to know the cost of production per tonne for the farm business.

Principle: 'Don't lock in a loss' – if committing production ahead of harvest, ensure the price is profitable.

Steps to calculate an estimated profitable price based on total cost of production and a range of yield scenarios is provided in the GRDC's *Farming the Business*. This manual also provides a cost of production template and tips on grain selling *v.* grain marketing (http://www.grdc.com.au/FarmingTheBusiness).

14.2.3 Income requirements

Understanding farm business cash-flow requirements and peak cash debt enables grain sales to be timed so that cash is available when required. This prevents having to sell grain below the target price to satisfy a need for cash.

Principle: 'Don't be a forced seller' – be ahead of cash requirements to avoid selling in unfavourable markets.

A typical cash flow to grow a crop is illustrated in Figure 5. Costs are incurred upfront and during the growing season with peak working capital debt incurred at or before harvest. This will vary depending on circumstance and enterprise mix. The second figure demonstrates how managing sales can change the farm's cash balance.

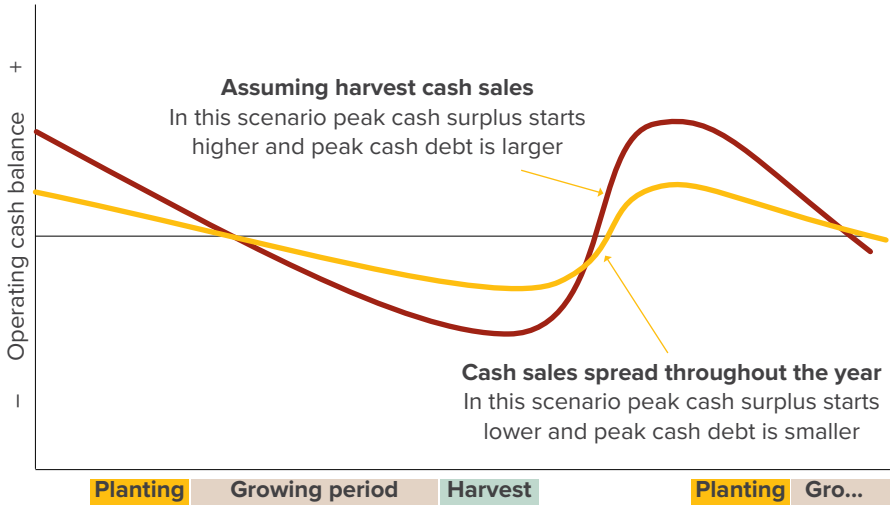


Figure 5: *Typical farm operating cash balance.*

Note: The chart illustrates the operating cash flow of a typical farm assuming a heavy reliance on cash sales at harvest *v.* a farm business that spreads sales out over the year.

When harvest sales are more heavily relied upon costs are incurred during the season to grow the crop, resulting in peak operating debt levels at or near harvest. Hence at harvest there is often a cash injection required for the business. An effective marketing plan will ensure a grower is not a 'forced seller' in order to generate cash flow.

By spreading sales throughout the year a grower may not be as reliant on executing sales at harvest time in order to generate required cash flow for the business. This provides a greater ability to capture pricing opportunities in contrast to executing sales in order to fulfil cash requirements.

14.3 When to sell revised

The 'when to sell' steps above result in an estimated production tonnage and the risk associated with that tonnage, a target price range for each commodity and the time of year when cash is most needed.

14.4 Ensuring access to markets

Once the selling strategy of when and how to sell is sorted, planning moves to the storage and delivery of commodities to ensure timely access to markets and execution of sales. At some point growers need to deliver the commodity to market. Hence planning where to store the commodity is important in ensuring access to the market that is likely to yield the highest return.

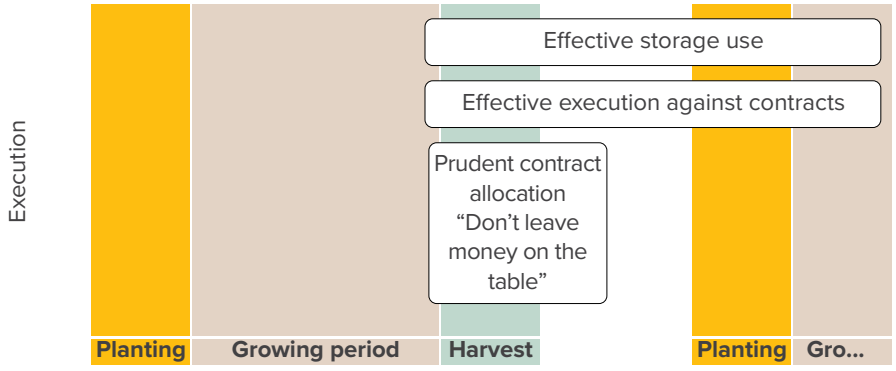


Figure 6: *Effective storage decisions.*

FEEDBACK

Once a grower has made the decision to sell the question becomes how they achieve this. The decision on how to sell is dependent upon:

- the time of year determines the pricing method
- market access determines where to sell
- relative value determines what to sell.

14.4.1 Storage and logistics

Return on investment from grain handling and storage expenses is optimised when storage is considered in light of market access to maximise returns as well as harvest logistics.

Storage alternatives include variations around the bulk-handling system, private off-farm storage and on-farm storage. Delivery and quality management are key considerations in deciding where to store your commodity.

Principle: 'Harvest is the first priority' – getting the crop in the bin is most critical to business success during harvest, hence selling should be planned to allow focus on harvest.

Bulk export commodities requiring significant quality management are best suited to the bulk-handling system. Commodities destined for the domestic end-user market (e.g. feed lot, processor or container packer) may be more suited to on-farm or private storage to increase delivery flexibility.

Storing commodities on-farm requires **prudent quality management** to ensure delivery at agreed specifications and can expose the business to high risk if this aspect is not well planned. Penalties for out-of-specification grain on arrival at a buyer's weighbridge can be expensive. The buyer has no obligation to accept delivery of an out-of-specification load. This means the grower may have to incur the cost of taking the load elsewhere while also potentially finding a new buyer. Hence there is potential for a distressed sale, which can be costly.

On-farm storage also requires **prudent delivery management** to ensure commodities are received by the buyer on time with appropriate weighbridge and sampling tickets.

Principle: 'Storage is all about market access' – storage decisions depend on quality management and expected markets.

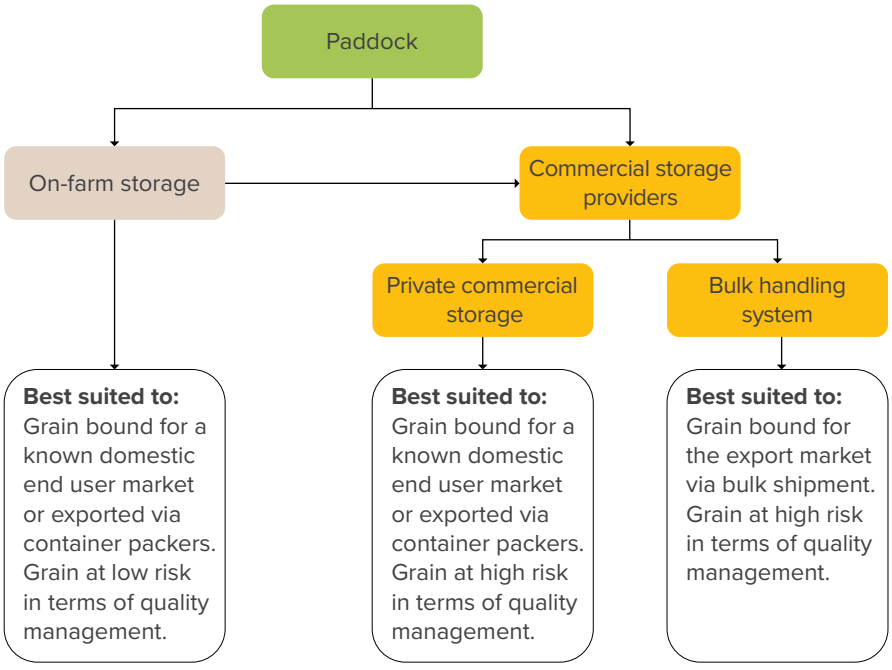


Figure 7: *Grain storage decision-making.*

Note: Decisions around storage alternatives of harvested commodities depend on market access and quality management requirements.

FEEDBACK

14.4.2 Cost of carrying grain

Storing grain to access sales opportunities post-harvest invokes a cost to 'carry' grain. Price targets for carried grain need to account for the cost of carry.

Carry costs consist of:

- monthly storage fee charged by a commercial provider OR capital cost allocation where on-farm storage is utilised; and
- the interest associated with having wealth tied up in grain rather than cash or against debt.

The price of carried grain therefore needs to be higher than what was offered at harvest. The cost of carry applies to storing grain on-farm as there is a cost of capital invested in the farm storage plus the interest component

Principle: 'Carrying grain is not free' – the cost of carrying grain needs to be accounted for if holding grain and selling it after harvest is part of the selling strategy.

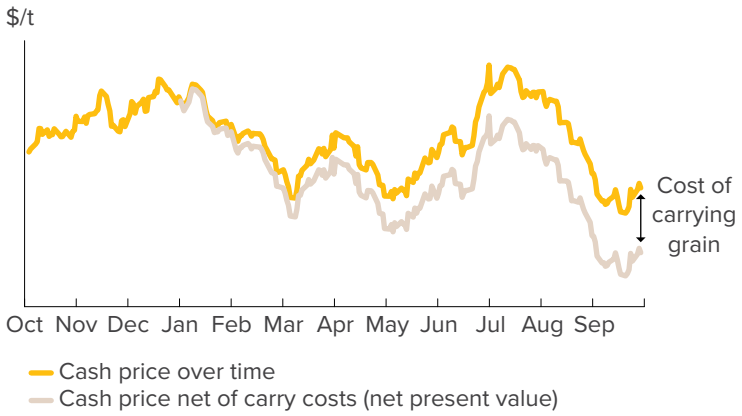


Figure 8: *Cash values v. cash adjusted for the cost of carry.*

Note: if selling a cash contract with deferred delivery, a carry charge can be negotiated into the contract. For example, in the case of a March sale for March–June delivery on the buyer's call at $300/t + $3/t carry per month, if delivered in June this contract would generate revenue of $309/t delivered.

14.3 Ensuring market access revised

Optimising farm-gate returns involves planning the appropriate storage strategy for each commodity to improve market access and cover carry costs in pricing decisions.

14.5 Executing tonnes into cash

This section provides guidelines for converting the selling and storage strategy into cash by effective execution of sales.

14.5.1 Set up the tool box

Selling opportunities can be captured when they arise by assembling the necessary tools in advance. The toolbox includes:

1. Timely information

This is critical for awareness of selling opportunities and includes:

- market information provided by independent parties;
- effective price discovery including indicative bids, firm bids and trade prices; and
- other market information pertinent to the particular commodity.

FEEDBACK

MORE INFORMATION

The link below provides current financial members of Grain Trade Australia including buyers, independent information providers, brokers, agents, and banks providing over-the-counter grain derivative products (swaps), http://www.graintrade.org.au/membership

2. Professional services

Grain selling professional service offerings and cost structures vary considerably. An effective grain-selling professional will put their clients' best interest first by not having conflicts of interest and investing time in the relationship. Return on investment for the farm business through improved farm-gate prices is obtained by accessing timely information, greater market knowledge and greater market access from the professional service.

14.5.2 How to sell for cash

Like any market transaction, a cash grain transaction occurs when a bid by the buyer is matched by an offer from the seller. Cash contracts are made up of the following components with each component requiring a level of risk management:

Price

Future price is largely unpredictable hence devising a selling plan to put current prices into the context of the farm business is critical to manage price risk.

Quantity and quality

When entering a cash contract you are committing to delivery of the nominated amount of grain at the quality specified. Hence production and quality risk must be managed.

Delivery terms

Timing of title transfer from the grower to the buyer is agreed at time of contracting. If this requires delivery direct to end users it relies on prudent execution management to ensure delivery within the contracted period.

Payment terms

In Australia the traditional method of contracting requires title of grain to be transferred ahead of payment, hence counterparty risk must be managed.

FEEDBACK

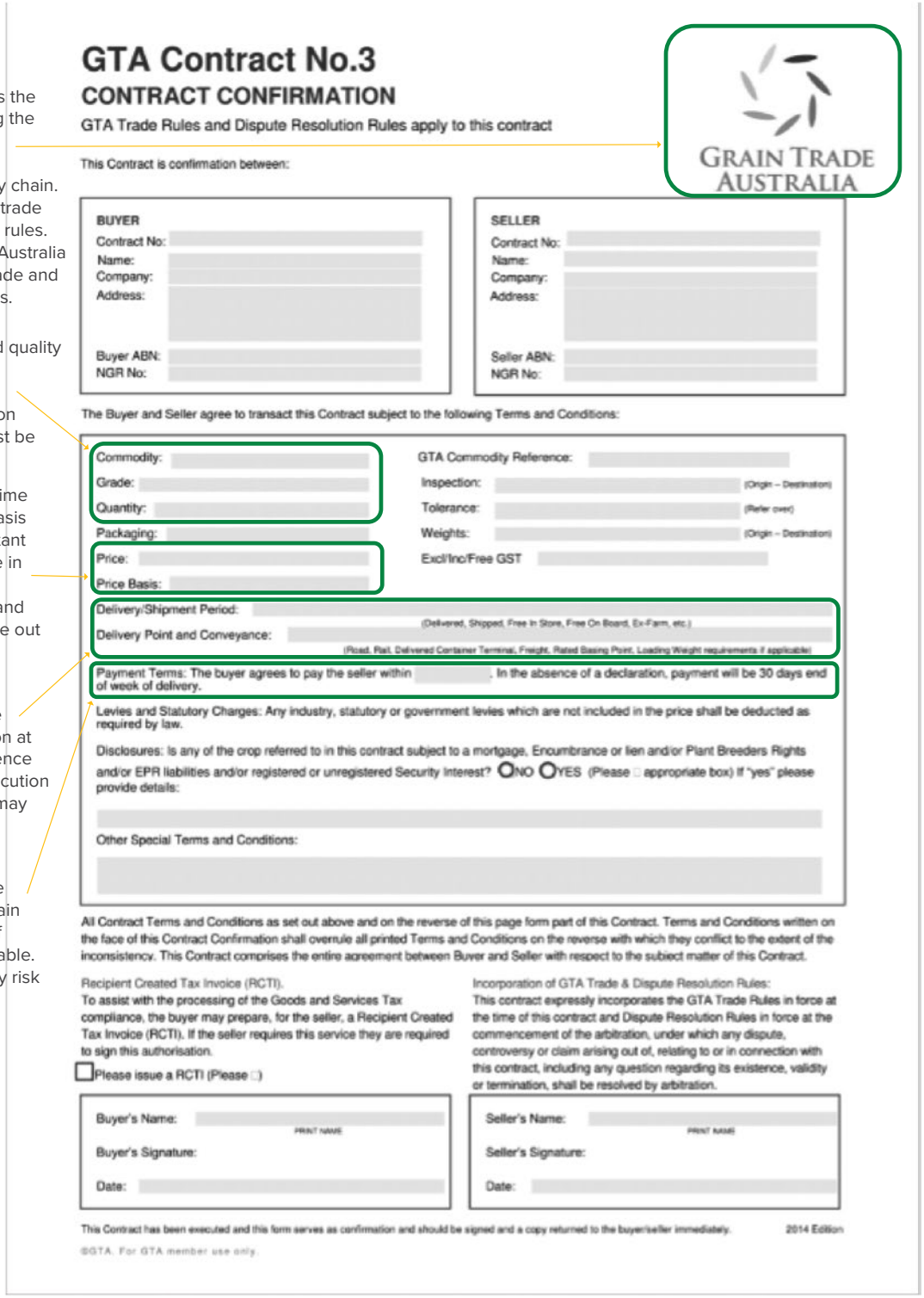
Grain Trade Australia is the industry body ensuring the efficient facilitation of commercial activities across the grain supply chain. This includes contract trade and dispute resolution rules. All wheat contracts in Australia should refer to GTA trade and dispute resolution rules.

Quantity (tonnage) and quality (bin grade) determine the actuals of your commitment. Production and execution risk must be managed.

Price is negotiable at time of contracting. Price basis or price point is important as it determines where in the supply chain the transaction will occur and so what costs will come out of the price before the growers net return.

Timing of delivery (title transfer) is agreed upon at time of contracting. Hence growers negotiate execution and storage risk they may have to manage.

Whilst the majority of transactions are on the premise that title of grain is transferred ahead of payment this is negotiable. Managing counterparty risk is critical.



GTA Contract No.3

CONTRACT CONFIRMATION

GTA Trade Rules and Dispute Resolution Rules apply to this contract

GRAIN TRADE AUSTRALIA

This Contract is confirmation between:

BUYER
Contract No:
Name:
Company:
Address:
Buyer ABN:
NGR No:

SELLER
Contract No:
Name:
Company:
Address:
Seller ABN:
NGR No:

The Buyer and Seller agree to transact this Contract subject to the following Terms and Conditions:

Commodity:
Grade:
Quantity:
Packaging:
Price:
Price Basis:

GTA Commodity Reference:
Inspection: (Origin – Destination)
Tolerance: (Refer over)
Weights: (Origin – Destination)
Excl/Inc/Free GST

Delivery/Shipment Period:
(Delivered, Shipped, Free In Store, Free On Board, Ex-Farm, etc.)
Delivery Point and Conveyance:
(Road, Rail, Delivered Container Terminal, Freight, Rated Basing Point, Loading/Weight requirements if applicable)

Payment Terms: The buyer agrees to pay the seller within ____. In the absence of a declaration, payment will be 30 days end of week of delivery.

Levies and Statutory Charges: Any industry, statutory or government levies which are not included in the price shall be deducted as required by law.

Disclosures: Is any of the crop referred to in this contract subject to a mortgage, Encumbrance or lien and/or Plant Breeders Rights and/or EPR liabilities and/or registered or unregistered Security Interest? ○NO ○YES (Please □ appropriate box) If "yes" please provide details:

Other Special Terms and Conditions:

All Contract Terms and Conditions as set out above and on the reverse of this page form part of this Contract. Terms and Conditions written on the face of this Contract Confirmation shall overrule all printed Terms and Conditions on the reverse with which they conflict to the extent of the inconsistency. This Contract comprises the entire agreement between Buyer and Seller with respect to the subject matter of this Contract.

Recipient Created Tax Invoice (RCTI).
To assist with the processing of the Goods and Services Tax compliance, the buyer may prepare, for the seller, a Recipient Created Tax Invoice (RCTI). If the seller requires this service they are required to sign this authorisation.
☐ Please issue a RCTI (Please □)

Incorporation of GTA Trade & Dispute Resolution Rules:
This contract expressly incorporates the GTA Trade Rules in force at the time of this contract and Dispute Resolution Rules in force at the commencement of the arbitration, under which any dispute, controversy or claim arising out of, relating to or in connection with this contract, including any question regarding its existence, validity or termination, shall be resolved by arbitration.

Buyer's Name: (PRINT NAME)
Buyer's Signature:
Date:

Seller's Name: (PRINT NAME)
Seller's Signature:
Date:

This Contract has been executed and this form serves as confirmation and should be signed and a copy returned to the buyer/seller immediately. 2014 Edition

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Figure 9: *Typical cash contracting as per Grain Trade Australia standards.*

The price point within a cash contract will depend on where the transfer of grain title will occur along the supply chain. Figure 10 shows the terminology used to describe pricing points along the grain supply chain and the associated costs to come out of each price before growers receive their net farm-gate return.

FEEDBACK

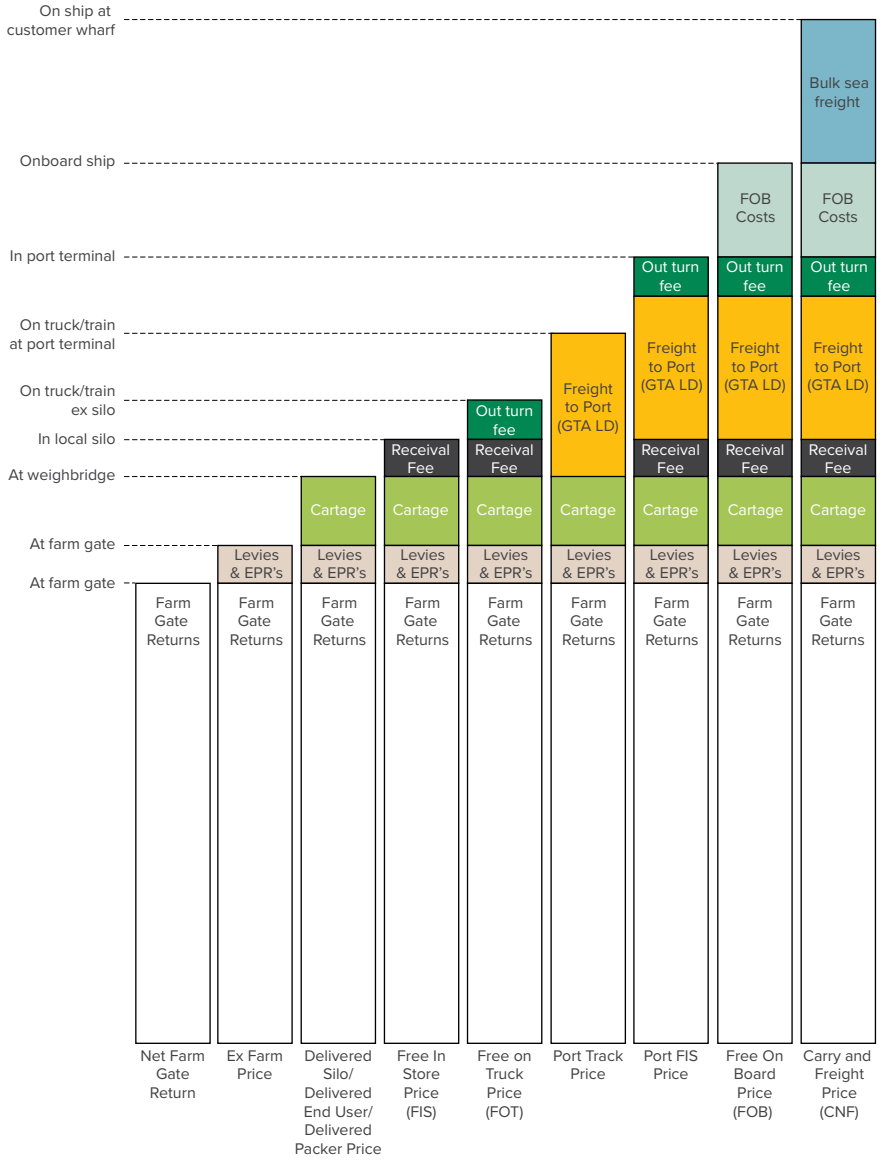


Figure 10: *Costs and pricing points throughout the supply chain.*

Cash sales generally occur through three methods:

Negotiation via personal contact

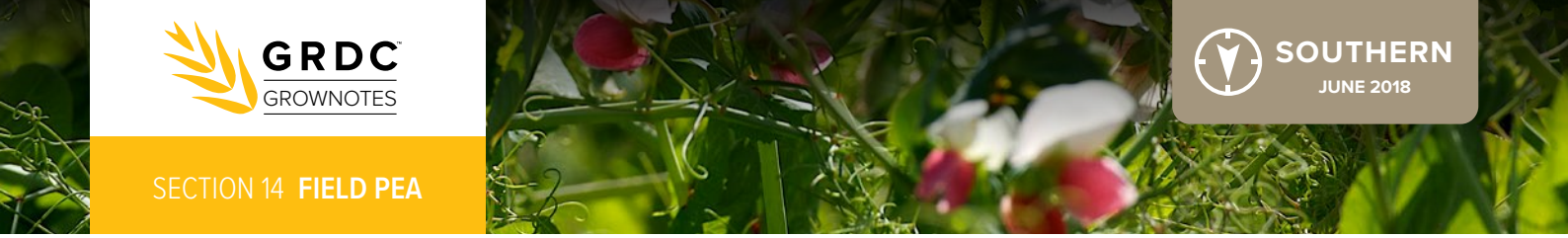
Traditionally prices are posted as a 'public indicative bid'. The bid is then accepted or negotiated by a grower with the merchant or via an intermediary. This method is the most common and available for all commodities.

Accepting a 'public firm bid'

Cash prices in the form of public firm bids are posted during harvest and for warehoused grain by merchants on a site basis. Growers can sell their parcel of grain immediately by accepting the price on offer via an online facility and then transfer the grain online to the buyer. The availability of this depends on location and commodity.

Placing a firm offer

Growers can place a firm offer price on a parcel of grain by approaching buyers with a set tonnage and quality at a pre-determined price. The buyers do not have to accept the offer and may simply say no or disregard the offer.



FEEDBACK

There are increasingly more channels via which to place a firm offer.

One way this can be achieved anonymously is using the Clear Grain Exchange, which is an independent online exchange. If the firm offer and firm bid matches, the parcel transacts via a secure settlement facility where title of grain does not transfer from the grower until funds are received from the buyer. The availability of this depends on location and commodity.

Anonymous firm offers can also be placed to buyers by an intermediary acting on behalf of the grower. If the grain sells, the buyer and seller are disclosed to each counterparty.

Some bulk-handler platforms are also providing facilities for sellers to place firm offers to the market, including GrainCorp via their CropConnect product.

Finally a grower can place a firm offer directly with an individual buyer.

14.5.3 Counterparty risk

Most sales involve transferring title of grain prior to being paid. The risk of a counterparty defaulting when selling grain is very real and must be managed. Conducting business in a commercial and professional manner minimises this risk.

Principle: 'Seller beware' – there is not much point selling for an extra $5/t if you don't get paid.

Counterparty risk management includes:

1. Dealing only with known and trusted counterparties.
2. Conducting a credit check (banks will do this) before dealing with a buyer they are unsure of.
3. Only selling a small amount of grain to unknown counterparties.
4. Considering credit insurance or letter of credit from the buyer.
5. Never delivering a second load of grain if payment has not been received for the first.
6. Not parting with title of grain before payment or request a cash deposit of part of the value ahead of delivery. Payment terms are negotiable at time of contracting, alternatively the Clear Grain Exchange provides secure settlement whereby the grower maintains title of grain until payment is received by the buyer, and then title and payment is settled simultaneously.

Above all, act commercially to ensure the time invested in a selling strategy is not wasted by poor counterparty risk management. Achieving $5/t more and not getting paid is a disastrous outcome.

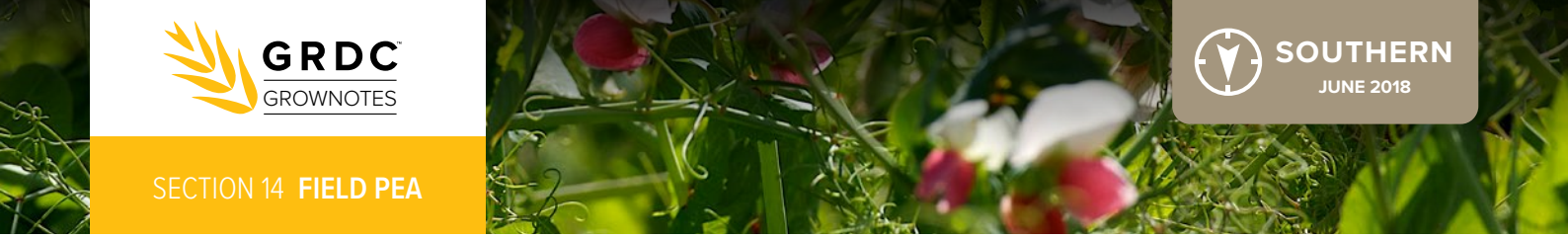
14.5.4 Relative values

Grain sales revenue is optimised when selling decisions are made in the context of the whole farming business. The aim is to sell each commodity when it is priced well and hold commodities that are not well priced at any given time. That is, give preference to the commodities of the highest relative value. This achieves price protection for the overall farm business revenue and enables more flexibility to a grower's selling program while achieving the business goals of reducing overall risk.

Principle: 'Sell valued commodities, not undervalued commodities' – if one commodity is priced strongly relative to another, focus sales there. Don't sell the cheaper commodity for a discount.

14.5.5 Contract allocation

Contract allocation means choosing which contracts to allocate your grain against come delivery time. Different contracts will have different characteristics (price, premiums discounts, oil bonuses etc) and optimising your allocation reflects immediately on your bottom line.



FEEDBACK

Consideration needs to be made based on the quality or grades you have available to deliver, the contracts you already have in place and how revenues will be calculated on each contract. Key considerations include: does the contract calculate revenues based on a sliding scale or on predetermined quality 'buckets'. Whenever you have more grain to allocate than pre-committed to contracts, don't forget to consider the premiums and discounts available in the current cash market as part of your contract allocation decision.

Principle: 'Don't leave money on the table' – contract allocation decisions don't take long and can be worth thousands of dollars to your bottom line.

14.5.6 Read market signals

The appetite of buyers to buy a particular commodity will differ over time depending on market circumstances. Ideally growers should aim to sell their commodity when buyer appetite is strong and stand aside from the market when buyers are not that interested in buying the commodity.

Appetite in pulse markets can be fickle, erratic and the buy-side can be illiquid. Hence monitoring market signals is critical to achieving the best possible returns.

Principle: 'Sell when there is buyer appetite' – when buyers are chasing grain, growers have more market power to demand a price when selling.

Buyer appetite can be monitored by:

- The number of buyers at or near the best bid in a public bid line-up. If there are many buyers, it could indicate buyer appetite is strong. However, if there is one buyer $5/t above the next best bid, it may mean cash prices are susceptible to falling $5/t if that buyer satisfies their buying appetite. In pulse markets the spread between the highest and the second highest bidder can be more than $100/t at times.
- Monitoring actual trades against public indicative bids. When trades are occurring above indicative public bids it may indicate strong appetite from merchants and the ability for growers to offer their grain at price premiums to public bids.

14.6 Sales execution revised

The selling strategy is converted to maximum business revenue by:

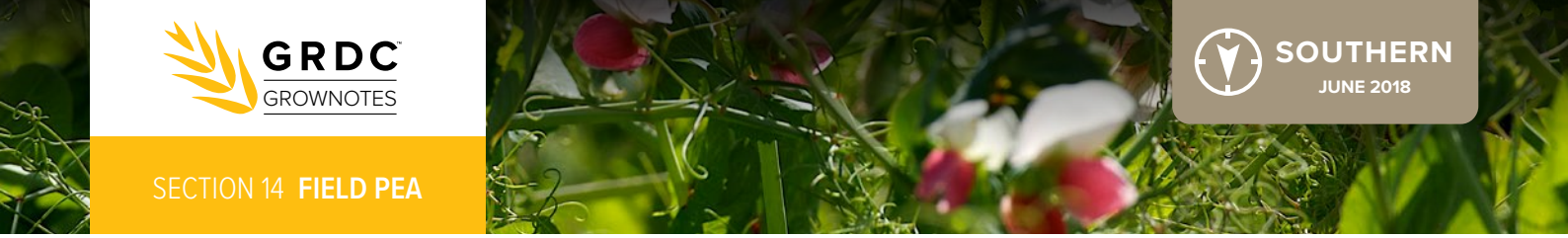
1. Ensuring timely access to information, advice and trading facilities.
2. Using different cash market mechanisms when appropriate.
3. Minimising counterparty risk by effective due diligence.
4. Understanding relative value and selling commodities when they are priced well.
5. Thoughtful contract allocation.
6. Reading market signals to extract value from the market or prevent selling at a discount.

14.7 Southern field peas – market dynamics and execution

14.7.1 Price determinants for southern field peas

Field pea pricing is highly volatile by nature, with a large variation both within and between seasons. Factors contributing to price volatility include subcontinental market dynamics and trading culture, chickpea/field pea substitution, as well as the chickpea and field pea crop size of Australia, competitor countries and the subcontinent, which is discussed in more detail below.

Field pea pricing influences affecting southern growers stem from both global human consumption market forces and domestic feed market forces.



FEEDBACK

Factors determining field pea stockfeed demand and feed quality price include:

1. The price of field pea relative to other sources of protein and energy that make up a least cost ration. Imported soybean meal (protein) and cereal grain prices (energy) are the major factors.
2. Export price opportunities. High export demand and prices of field pea flow through to domestic pricing.
3. Australian dollar. A low Australian dollar increases the import price of soybean meal and increases the export price of field pea.

Global influences on Australian field pea pricing are listed below (see also Figure 11):

1. Canadian field pea planting intentions.
2. Indian domestic rabi season (harvest April/May) pulse production. Any negative influences will increase the need for imports of either chickpea or field pea.
3. Canadian production totals.
4. Canadian, US and European excess production in the previous season, i.e. stocks on hand or carryover.
5. The world price of chickpea. Field pea is purchased as a substitute pulse when the chickpea price is high.
6. Timing of festivals in importing countries. Ramadan, which occurs in the ninth month of the Islamic calendar and lasts for 29 days, is the most important festival. Ramadan occurs around June then May for the next few years then will get closer to the end of the Australian harvest. This is favourable for supplying the Ramadan market post-harvest.

The primary end use of southern field pea is the export market, with the majority of exports conducted via containers rather than bulk. However, the domestic stockfeed industry remains important, particularly in Victoria where field pea is an important source of protein in feed rations, alongside alternative pulse crops and imported soybean meal.

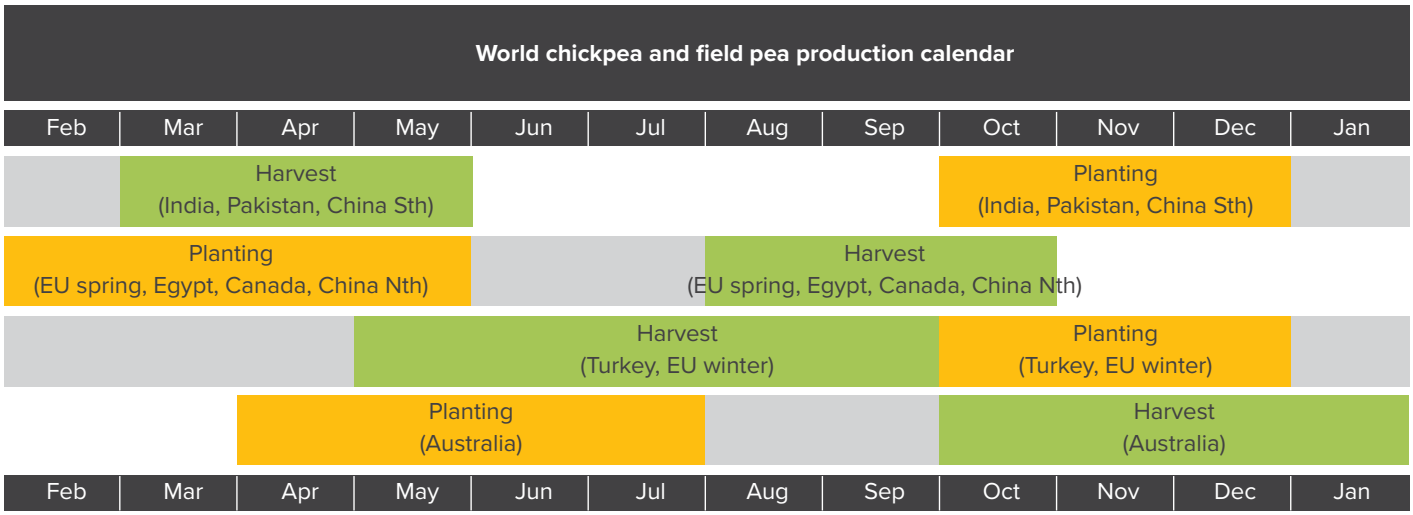


Figure 11: *Global field pea production calendar.*

FEEDBACK

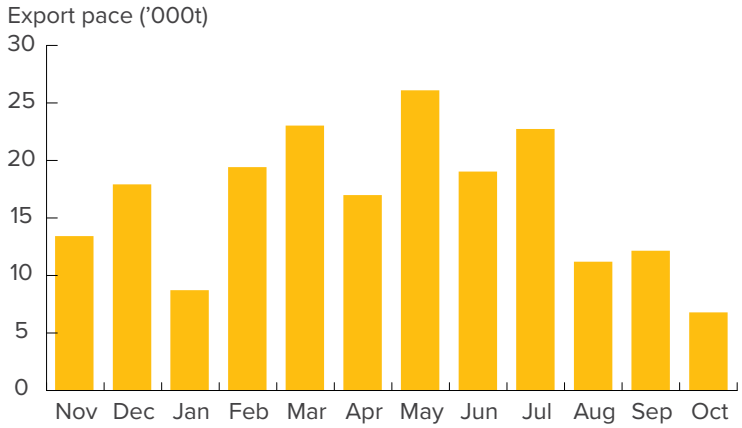


Figure 12: *Five-year average monthly export pace ('000t) Australian field pea.*

Source: Australian Crop Forecasters

14.7.2 Southern field pea marketing and seed type

The majority of field pea grain (70–90%) is exported for human consumption, with the rest sold for stockfeed. The market demand for field pea varies according to the type. At receival, traditional dun pea types are usually segregated from 'Kaspa' dun types. White and blue peas also need to be segregated, and usually require a specialised marketer to accept delivery.

More than 90% of Australian production is from dun types (i.e. grain that has a dun-coloured seed coat), of which more than 85% is now the 'Kaspa type' (e.g. Kaspa$^{\Phi}$, PBA Gunyah$^{\Phi}$, PBA Twilight$^{\Phi}$ and PBA Wharton$^{\Phi}$). Kaspa-type seed is preferred for snack food in southern India over other pea seed types and attracts a price premium. To avoid limiting the marketing of Kaspa-type grain for export, growers should avoid sowing seed contaminated with Parafield or other dun types.

Most field pea markets in India now prefer the Kaspa dun type because it is easier to remove the seed coat from a round seed than the dimpled seed of the traditional dun type (e.g. PBA Oura$^{\Phi}$). There are markets in India and Sri Lanka that still buy the dun-type field pea. White field pea markets are further developing into China and Sri Lanka and growers of the high-yielding PBA Pearl$^{\Phi}$ should ensure they have access to traders of these white peas.

Domestically all field pea varieties, dun and Kaspa types, are sought after for the splitting market, including PBA Wharton$^{\Phi}$, PBA Twilight$^{\Phi}$, PBA Oura$^{\Phi}$, PBA Percy$^{\Phi}$ and PBA Gunyah$^{\Phi}$.[1]

1 J Couchman, K Hollaway (2017) NVT Victorian Winter Crop Summary 2017. Department of Economic Development, Jobs, Transport and Resources, www.grdc.com.au/NVT-Victorian-Winter-Crop-Summary

FEEDBACK

14.7.3 Ensuring market access for southern field pea

The major food markets for field pea are in southern India and Sri Lanka. However, field pea in these markets face strong competition from Canadian yellow pea and chickpea.

In domestic markets field pea is an important source of protein in stock feed rations, and in this instance face competition from alternate protein sources including other pulses and imported soybean meal.

By and large, whether finding homes in export (generally via container) or domestic markets, private commercial storage and on-farm storage both provide efficient paths to market.

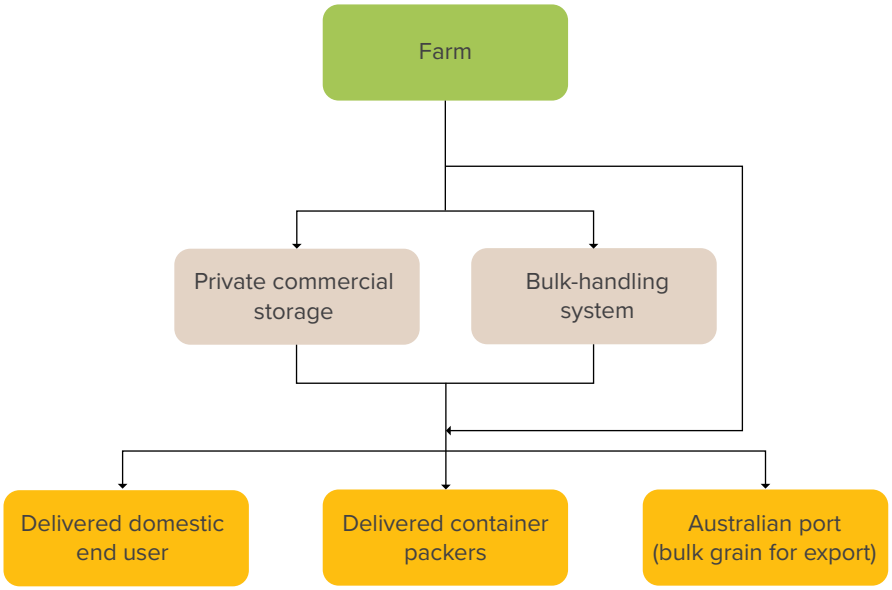
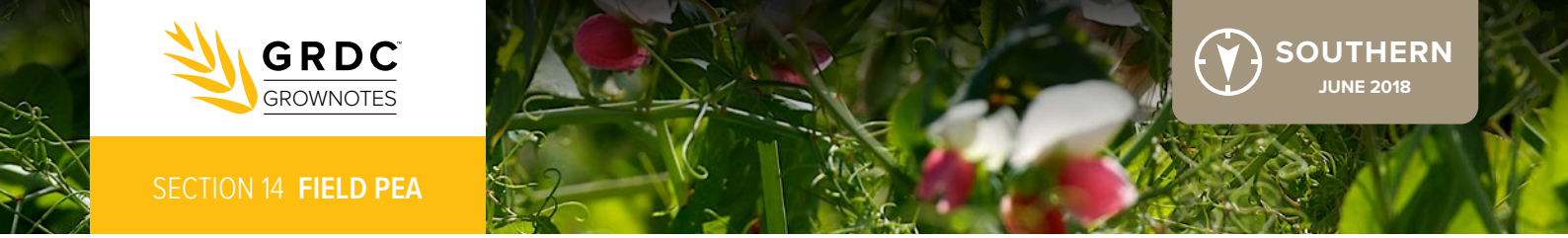


Figure 13: *Australian supply chain flow.*

Note: Storage decisions should be determined by assessing market access.

Source: Profarmer Australia



FEEDBACK

14.7.4 Executing tonnes into cash for southern field pea

Field pea marketability commences in the paddock ensuring:

- chemical withholding periods have been met;
- weed control has been adequate to minimise weed seed contamination;
- insect and disease control to ensure a good quality pea; and
- harvest technique to minimise seed damage.

Selling options for field pea include:

1. Store on-farm then sell – most common occurrence. Field pea are relatively safe to store and require less maintenance than cereal grains. It does however remain important to monitor and maintain quality, with field pea required to meet strict quality specifications for export in order to avoid being discounted at the time of delivery. Must consider cost of storage in target pricing.
2. Cash sale at harvest – least preferred option as buyer demand does not always coincide with harvest. Values can come under pressure at harvest time if an influx of grower selling occurs in a small window, subsequently providing buyers with confidence they can meet their short/medium-term commitments.
3. Warehouse then sell – this provides flexibility for sales if on-farm storage is not available. Must consider warehousing costs in cost of production and target prices. It is unlikely this will be a selling avenue available to northern growers with the major bulk handlers not providing this option due to the low volume of production. Availability of this option from 'packers' within the 'delivered' market will vary depending on each individual buyer.

As with all sales, counterparty risk and understanding the contract of sale is essential. Counterparty risk consideration is especially important for pulse marketing as there is often a higher risk of contract default in international pulse markets than for canola or cereals, this is due to the markets they are traded into, lack of appropriate price risk tools (such as futures) and often the visual and subjective nature of quality determination. This can place extra risk on Australian-based traders endeavouring to find homes for your product.

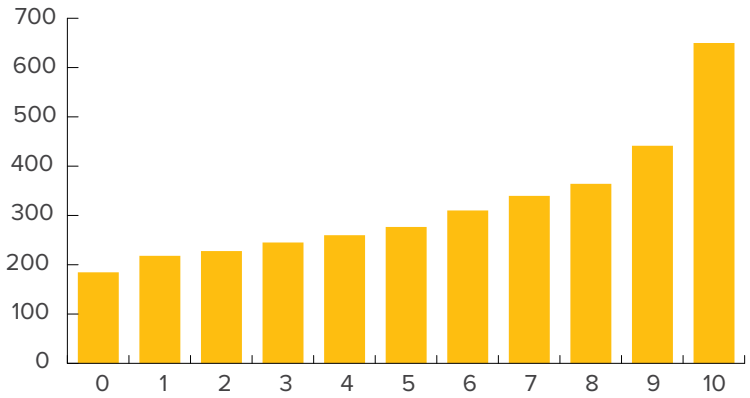


Figure 14: *Port Adelaide field pea deciles.*

Source: Profarmer Australia

FEEDBACK

MORE INFORMATION

A good reference for marketing is at: http://www.pulseaus.com.au/storage/app/media/members_only/2015_PulseCropPosters_A1sizeLR.pdf

A GRDC market/receival standards paper 'Pulse market and receivals update' by W. Hawthorne (formerly of Pulse Australia) is at: https://grdc.com.au/resources-and-publications/grdc-update-papers/tab-content/grdc-update-papers/2012/08/pulse-market-and-receivals-update

Details on how to develop a pulse marketing plan to meet customer demand is at: https://grdc.com.au/news-and-media/news-and-media-releases/south/2015/02/develop-a-pulse-plan-to-meet-customer-demand

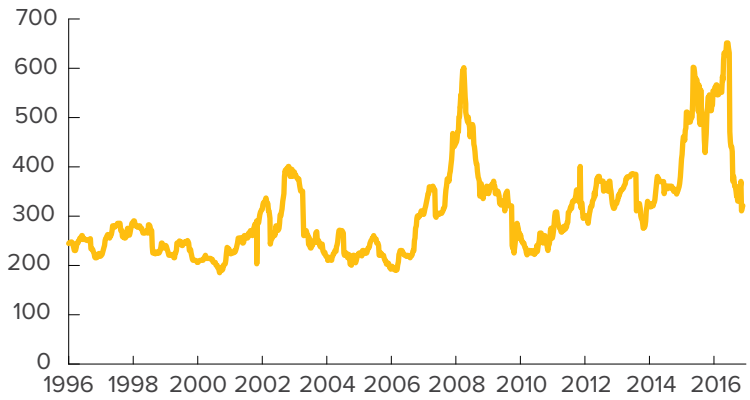


Figure 15: *Long-term Port Adelaide field pea price history.*

14.7.5 Marketing planning

Growers should consider their pulse-marketing plan at the start of the season for the best decision-making and results. A pulse-marketing plan starts before a single seed is sown. A plan should contain:

- the pulse, and the best variety type to be grown.
- the marketer(s) to engage.
- timing and schedule of delivery over the season.
- delivery point and quality required for that product.
- requirement for a forward contract.
- ability to achieve the quality grade expected.
- fall-back position if the quality grade cannot be achieved.

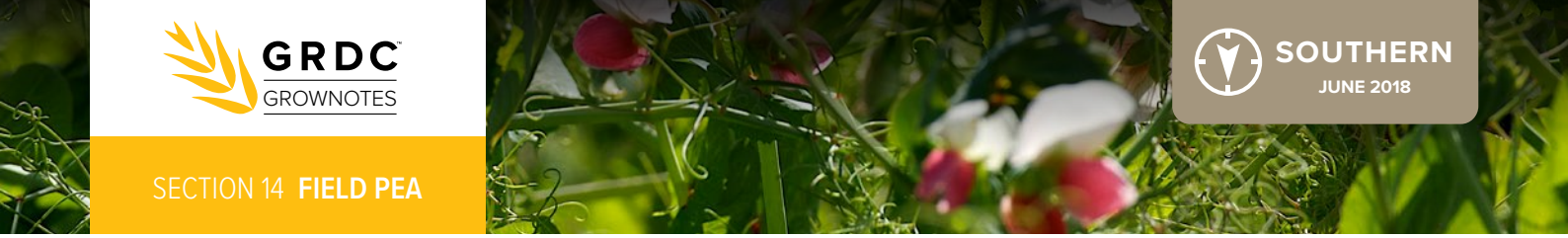
Global pulse markets are driven by factors each season in the major pulse growing countries, including Australia, Canada, France and the UK. The varieties planted, the environmental conditions and exchange rates will affect the prices – if there's an oversupply of one commodity the price could potentially drop while demand and price could increase on another commodity.

Being aware and informed of the market trends means growers can make the best choices for their situation. For example, in some seasons, lentil and faba bean prices have increased towards and post-harvest. However, this is coincidental and is not always likely to occur.

In these instances the prices have been driven upwards due to a combination of drought in parts of Australia along with international factors. It's important to keep abreast of these kinds of fluctuations in prices, so that growers can sell their product at the optimal time.

Engaging a pulse marketer can help growers get the best returns by developing answers to the following questions:

- **Who is your target customer?** Knowing your customer helps to direct efforts and costs towards what's actually important to them, so you can receive the best financial return.
- **Who is your competitor?** Consider both domestic and international competitors and what can be done to deliver a better proposal to the customer.
- **When is the best time to sell your product?** Does it make sense to build extra storage on-farm to sell at the highest price point? Alternatively are there cost-effective local storage options?
- **What is your desired customers' quality specification?** Quality is one of the best ways to set yourself apart from competitors. What farm practices should be put in place to ensure quality specifications are met?



FEEDBACK

Pulse growers are encouraged to build relationships with their grain marketer to understand global trends and be advised on the best-selling options. Growers will benefit from knowing which varieties will be in demand, timing of the sale to meet a gap in supply, and the commodities quality specifications to target to get the best return.

Certain premium or niche pulse products with limited markets can only realistically be grown through a relationship with a marketer who can identify the market to ensure the product can be sold.

Most importantly, pulse marketing is extremely unpredictable and growers should perform due diligence to ensure they're selecting an appropriate marketing company. Know whether the marketing company is a member of Grain Trade Australia (GTA); who is backing that company; and confirm that they are financially secure.