

# Paper 18

## EXPORT MARKETING OF BARLEY — THE MERCHANTS' VIEW POINT

**E.G. Smith**

Export Sales Manager, Wrightson NMA Limited,  
Christchurch

### INTRODUCTION

During the mid-1970's a certain political party used the slogan "It's time for a change" and of course, as we know, this occurred. Whether it was for better or worse, I am not sure.

Changes in barley marketing witnessed in the past two seasons have been made in an attempt to remove the influence of the "middle man". This change has received emotive publicity, but as with any change, success can only be judged by time. Those who instigated these changes should be complimented for their initiative. However, let us be honest in admitting that they were extremely fortunate in their choice of season in which to enter the market. In recognition of farmers' desire to be more involved, merchants offered growers contract-marketing options which received favourable support. It is intended to pursue a similar approach in forthcoming seasons.

### REASONS FOR CHANGE

For over 100 years New Zealand farmers have been growing barley, and they will no doubt continue to do so for some time. Prior to the early 1970's we had no real appreciation of inflation, and apart from an occasional variation in our commodity values the grower was always able to make a profit on production costs. Unfortunately this no longer applies, as growers are now exposed to much greater fluctuations. Apart from improving their farming techniques, they must also look at growing the best cultivar of the right crop for their particular conditions. This can of course be achieved by consulting professional advisors, and foremost — your local grain and seed specialist.

It was inflation plus our creeping devaluation that encouraged growers to look for alternative marketing options. Prior to this phenomenon, the majority of growers were quite content to accept contracts for local consumption at ruling rates, knowing that, come harvest, values would be more or less equal to those at the time of sowing.

We recognise that the present situation is not stable, and with international markets prone to significant fluctuation farmers must look to the best form of contracting protection.

### GROWER OPTIONS

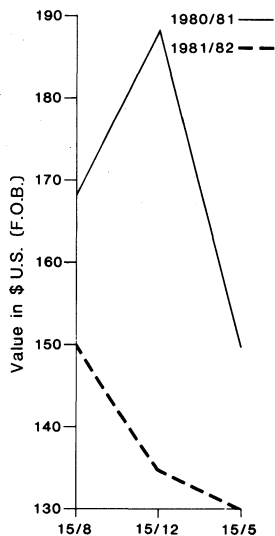
Most grain merchants accepted the challenge, realising that it was "Time for a change". Three options were offered in 1981-82:

1. Fixed firm price with price/payment variations.
2. Fixed base price with final price being settled mid-December (which was close to the peak of 1980 prices).
3. Participation contracts with an interest-free proportion paid in advance.

Farmers are generally a canny lot, and so the mix of contracts taken up differed greatly from region to region. For example, one South Island region achieved approximately 80% fixed firm contracts, while another had about 15%. The other options showed equal variation. The grain merchants now pride themselves that last year they offered growers the best of both worlds in relation to feed contracts. It is too early to identify the contract which gave the best financial return. However, indications are that the original fixed-price contract may have been the best choice after taking all factors into consideration.

### OPTIMUM MARKETING TIME

After taking creeping devaluation and inflation into consideration I believe there is only one right time to sell, and that is at the top of the market. I am convinced that no company or individual has yet been born with even the potential to market consistently at the pinnacle. To emphasise this, one has only to examine market movements over the past nine months, compared with the same period in 1980-81. Exchange or currency movement is a further complicating factor in New Zealand, as international barley trading is generally concluded in U.S. dollars.



**Figure 1: Barley prices based on nominal value in U.S. dollars during the 1980-81 and 1981-82 seasons, comparing market movement over the two periods, and showing variation in annual peak dates.**

Figures 1 and 2 highlight the significance of market and currency variations. These figures indicate that for 1980/81 and 1981/82 no pattern emerged as to the optimum period or time to market export seed barley. Also higher NZ dollar returns were achieved by not covering August-December in either year.

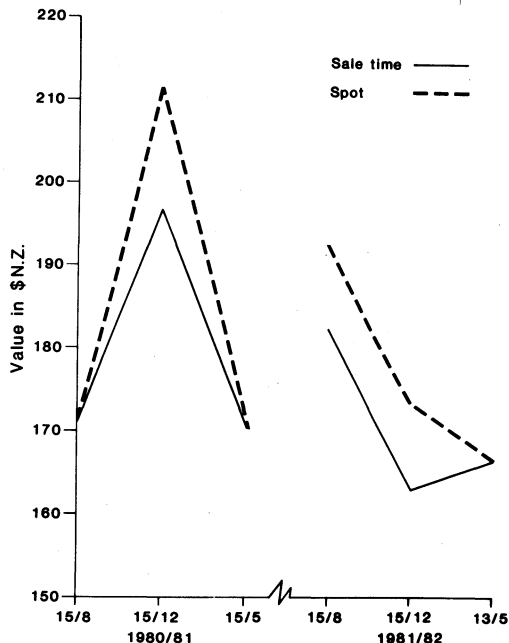
## THE MIDDLEMAN IN MARKETING

In today's world of inflation, devaluation, and generally high costs, producers are seeking better marketing methods to achieve the highest possible returns. Since the advent of producer barley-marketing, the media have made play with "no room for middlemen in New Zealand". Grain merchants refute such statements and take exception to them for several reasons.

For more than 100 years merchants have promoted orderly marketing in the best interests of all parties in New Zealand. This has been achieved by arranging domestic contracts, most of which provide for prompt delivery at harvest, thus alleviating storage problems and, equally important, creating an early cash flow.

Merchants have supported producers, at times offering them firm contracts at prices above international levels, removing the risk of unsold surplus barley at harvest. Such actions were taken to retain grower confidence in barley production.

Major commercial grain and seed companies have invested substantial capital in research properties to improve agricultural production in New Zealand. Included



**Figure 2: Currency variations for 1980-81 and 1981-82. Sellers received an increased return for theoretical sales made in August and December in either season.**

in their programmes is the development of new and improved cereal cultivars to increase grower returns. Several companies such as my own (Wrightson NMA) have been able to release on to the New Zealand market cereal cultivars that have improved production and contributed to increased financial grower returns. For the 1981 New Zealand Ammo-phos Barley Awards the mean yield for all Zephyr entries was 5.1 t/ha. The mean yield for Proprietary barley cultivars was 6.3 t/ha, the difference of 1.2 t/ha indicating an improved financial return of \$180 per hectare at \$150/tonne. It is recognised that the seed cost for Proprietaries increases the cost per hectare above that of Zephyr, and that much of the Zephyr is grown on a malting contract, but this makes little differences in relation to the increased financial returns from the higher yield. We must also not overlook the part played by Government research and development centres.

Grain merchants, the middlemen, honour contracts in full, with nothing withheld. In addition, they are instrumental in providing for advance payments in their "participation pool", with no strings attached.

The point I wish to emphasise is that there is now, and must always be, a place for the middlemen in barley production and marketing in New Zealand. The grain merchant offers the grower a unique and comprehensive range of services, which includes management information

and advice, the benefits of exposure to international markets, financial assistance when necessary, and access to higher-yielding cereal cultivars. In combination, these benefits demonstrate that there is an important place for the mercantile man who can assist barley growers to maximise their overall returns.

## MARKETING METHODS

I am not releasing any profound information in disclosing our system. It is in fact quite simple, in that we make every endeavour to obtain the best price by casting a wide net internationally. Most major companies have an association with at least one of the larger international commodity trading houses and are in constant communication when a sale looks imminent. However, depending on market situation and overall prospects, this communication has been known to drag on over eight or nine months.

Sometimes, on the other hand, due to market knowledge and trends, when the time appears opportune to sell a deal can be concluded in a matter of days. In this regard, merchants invite firm bids, without obligation,

from international commodity trading houses, and if the highest price is considered full market value on the day, then the deal is closed. If the Merchants Consortium considers it below par for the day, then all bids are declined and a watchful eye kept on the market trends. This method is relatively simple, but it achieves the desired result, and we believe it gives merchants the opportunity to obtain the best possible ruling international price. Whether it is the "right day", only hindsight and the graph will tell.

In conclusion, commercial companies are very aware of marketing trends and the developing tendency towards **co-operative marketing, which has been born because of inadequacies in some industries. In certain cases this has been warranted;** however, so far as our industry is concerned, mergers and take-overs have been able to achieve greater rationalisation of assets. This has been done without detracting from competitiveness, and at the same time has created a strong viable industry which is reflected in the quality of merchants' service. With a combination of all these factors, your grain merchant, given the opportunity, will market your barley and achieve the best possible return.