

## *Risk Management*

# Organizing a Marketing Club

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A marketing club is a group of people who usually meet once or twice a month with the common goal of increasing their knowledge of marketing and other risk management concepts. Typically, a group of 15 to 25 producers forms a club with the assistance of the Extension Service. Clubs often trade futures and options (especially options) as a group to gain experience in a limited risk environment. The usual life of a marketing club is 1 to 3 years. This method of education has some strong advantages over traditional short duration workshops. The participants are encouraged to have informal discussions that help them learn from each other. The longer period of time allows for hands-on practice and observation of actual market dynamics and helps members learn the benefits and costs of various marketing and other risk management alternatives. Members put into action the principles learned in class by applying them to real life situations.

Educational programs are more effective when directed to a targeted audience such as a marketing club. Marketing club members become involved to learn about marketing and other risk management tools. They know what topics will be discussed and attend to obtain information, learn how to manage risk, and improve their income.

## ***Ingredients for a Successful Marketing Club***

A successful marketing club includes three key ingredients: 1) producers interested in learning how to use alternative marketing strategies and manage other risks they are facing; 2) a county Extension agent or other facilitator with the experience and skill to work with volunteers and provide education; and 3) a capable and willing leader who is interested in giving his/her time to help other producers learn about the available risk management tools. A strong leader is the most critical factor in the success of a marketing club.

## ***Facilitator***

The major facilitator can be the county Extension agent, a banker, elevator or gin manager, vocational agriculture teacher, etc. The facilitator maintains the mailing lists; mails out reminders; may help secure a DTN machine or other information service for the meeting room; locates nearby internet access; makes sure equipment such as a speaker phone, projector and VCR/DVD are available; arranges for refreshments, in some cases; has the bylaws typed up, etc. The facilitator's job is to provide the setting for an outstanding meeting but not to run the meeting. Clubs are encouraged to use a broad range of speakers. The club should function on its own and not need the agent or economist around for each meeting.



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## **Leader**

Ideally, the marketing club leader is a producer with good leadership skills and at least a basic understanding of most of the standard risk management tools that would be discussed in meetings. In some cases, it may be necessary for someone other than a producer to serve as the leader, but it appears that producers who are facing the same decisions as the members make the most effective leaders. The leader keeps the educational process moving and stimulates members to take an active part in the meetings.

Anyone considering organizing a club should seek a willing and capable leader before any other preparation is made. The club should not expect more than 1 year's commitment from the leader. The club needs to evaluate its plans once a year and determine if there is sufficient interest to continue for another year.

## **Steps in Getting Started**

### ***First Meeting/Interest Meeting***

Once you have the three key ingredients for a successful marketing club, make plans for the first meeting. The primary objectives of the first meeting are to: 1) determine if there is adequate interest to start a club of 15 to 20 producers; 2) get names and addresses; 3) decide if the potential members want to start with a marketing workshop; and 4) solicit ideas about possible meeting places and times. An information survey can be used to get information about the potential members, their preferences about meeting times, and some indication of their level of expertise in the use of various risk management tools. A sample survey is available on the Master Marketer Web page. The facilitator (agent) usually conducts the first meeting if a leader has not volunteered.

The "interest" meeting should be widely publicized with a brief explanation as to the functions of a marketing club. An example news release is available on the Master Marketer Web site. Every effort should be made to stimulate interest in learning more about risk management.

### ***Futures and Options Workshop (Optional)***

One way to gauge interest and organize a group that is rooted in the basics is to conduct a futures and options marketing workshop. The workshop may point to the need for additional education and provide materials for use in later meetings. The agent and leader can schedule an Extension economist to conduct the workshop.

If the group does not want a workshop, the next meeting should be the organizational meeting. For those who want to start with a marketing workshop, it should be quickly scheduled and publicized. Those who attend the first meeting should receive a written notice of the workshop, and other producers in the county should be invited by posting signs, writing newspaper articles, and using other available news media.

It is best to already have the next meeting (organizational meeting) scheduled so that the marketing workshop participants can be informed during the workshop.

### ***Organizational Meeting***

The organizational meeting is likely the most important meeting in the life of the marketing club. The facilitator (agent) and the leader should publicize and carefully plan this meeting. If a leader has not volunteered, the first order of business is to select a leader, a treasurer and secretary (to take notes at meetings). Bylaws or legal arrangements with a broker are not necessary until the group decides to trade. The suggested agenda items are as follows:

- selection of a leader (chairman), secretary and treasurer
- goals of the club
- possible topics and speakers
- place, time and length of meetings
- topic for next meeting
- commodity subcommittees

In addition, it would be good to make sure the meeting site is equipped with a telephone and speaker phone, and access to the internet or a DTN or other quote machine.

### *Typical Meeting*

A standard format should be followed that encourages members to participate actively in the meeting. Any new business items should be promptly covered first. Set a pattern that works. Keep it moving and short. Some of the other likely agenda items are:

- informal time to visit at first (pass out any handouts, share marketing newsletters, look at DTN or internet to get current with market, etc.)
- educational program of 15 to 20 minutes (speaker, video, conference call, presentation of lesson plan by club member, etc.)
- reports from commodity subcommittees about current futures, cash prices, contracts available, basis, charts, etc.
- what you are hearing from your broker or market analysts
- discussion of any actual position the club has in futures or options
- discussion of possible changes needed in the group marketing plan
- selection of a topic for the next meeting

The leader and the facilitator should handle routine details outside of the meeting time. If the group decides to pool their money and trade as a group, the use of those funds should be carefully documented by the secretary and all proposals should be voted on.

For some topics, the Extension facilitator may need to find a speaker and have several clubs from the area meet at a central location. There may be field trip opportunities such as going to Chicago or New York to observe trading on the floor of the commodity exchanges.

### **Risk Management Curriculum**

Extension economists have prepared and are revising a set of leaflets and curriculum guides that can be a source for the educational component of meetings. These will be available from the county Extension agent or Extension economist, or can be printed out directly from

the Master Marketer Web site. Each lesson plan will include a two- to four-page discussion of the topic. Also included is a curriculum guide for the club leader, with ideas on important points to make, examples, potential speakers, review questions, and other resources. The curriculum guides will also include a set of visual overheads for use in teaching.

The list of topics includes: 1) Organizing A Marketing Club, 2) Developing A Marketing Plan, 3) Production Cost, Budgets and Break-even Prices, 4) Price Risk and Pricing Alternatives, 5) Basis, 6) Introduction to Futures and Options, etc.

### **Other Extension Support**

The direct support for clubs will be through the county Extension agent. As the facilitator, the agent can assist the club by helping to contact speakers and doing whatever else is needed to make the club function effectively, freeing the leader to conduct the actual meetings. The Master Marketer Web site is targeted to the needs of marketing clubs. The address is:  
<http://mastermarketer.tamu.edu>.

Examples of useful workshops are Introduction to Futures and Options, BudPro, Texas RAMM and the Packer/Feeder simulation game. Contact your county Extension agent to arrange any of these workshops through an Extension economist.

### **Trading Futures and Options as a Club**

Understanding how to use futures, puts and calls in risk management requires experience beyond the classroom. Even paper trading is not nearly as effective in learning about options as is actual experience. Trading as a club creates an environment in which members feel more free to discuss marketing decisions. By removing individual accountability for each buy and sell position, members are less likely to be defensive or embarrassed over trades that were not profitable. When the members have at least a small financial commitment, several positive things happen: 1) producers are more interested in the

day-to-day market activity; 2) they follow prices and trends more closely; 3) meeting attendance improves; 4) group discussions are better when the group is following the same put or call; and 5) members are required to interact with a broker and handle a brokerage account.

When actual trading is involved, a more formal organization is recommended. It is suggested that clubs develop and adopt a set of bylaws that specify how they will do business. A sample set of bylaws that could be used as a starting point is available on the Master Marketer Web site.

To purchase commodity futures and options contracts, the club will need to deal with a broker registered with the Commodity Futures Trading Commission (CFTC) and be sure to operate within the guidelines laid out by the CFTC. These regulations generally require any person who is engaged in the business of operating a commodity pool for the purpose of trading commodity futures or options, including an educational marketing club, to register with the CFTC as a commodity pool operator (CPO) and to comply with certain disclosure, recordkeeping and reporting requirements. An exemption from CPO registration may be available pursuant to CFTC Regulation 4.13.

In particular, Regulation 4.13(a)(1) provides that a person is not required to register as a CPO if he or she: 1) does not receive compensation, other than reimbursement for ordinary operating expenses, for operating the pool; 2) operates only one commodity pool at a time; 3) is not otherwise required to register with the CFTC and is not affiliated with anybody required to register; and 4) does not solicit participants for the pool. In the alternative, Regulation 4.13(a)(2) provides that a person is not required to register as a CPO if he or she: 1) does not have more than 15 participants in each pool; and 2) does not collect more than \$400,000 in gross aggregate capital contributions for all the pools he or she operates. Please note that these CPO registration exemptions are not self-executing. Regulations 4.13(a)(5) through 4.13(e) explain how to claim and maintain these exemptions. This information can be found at: <http://ecfr.gpoaccess.gov>.

If you have any questions about Regulation 4.13, including whether it is applicable to your particular situation, you may contact CFTC staff for guidance at [dcio@cftc.gov](mailto:dcio@cftc.gov).

## **What Will Work**

- A leader who keeps the meeting moving and involves as many members as possible. Assigning members to specific commodity subcommittees helps encourage participation. Participation is further enhanced if each member of the subcommittee has a specific responsibility such as supply/demand outlook, technical analysis—including an updated chart, and local cash market developments.
- A facilitator who handles the details to free up the leader to concentrate on the meeting.
- Buying or selling an option or futures contract together. Try to stay with “mini” futures and options contracts if available. If “minis” are not available, consider trading the commodity by purchasing an option so that the group’s potential loss is limited to the premium paid for the option.
- Meeting at the same time and place for each meeting. Set a standard agenda. Keep meetings under an hour.
- Getting the “right” person to cover whatever topic addresses your needs. Telephone conferences are workable.

## **What Will Not Work**

- Setting up the room in classroom style. (Everyone should be facing toward the center, using tables if possible.)
- Making the county Extension agent or Extension economist the primary leader. (Producers have proven to be the best leaders.)
- Associating the club too closely with a broker. (Use the broker as one resource person.)

- Trying to keep a club alive past its natural life. (When it's time, have a funeral.)

## Summary

Marketing club members learn from each other and act as a peer support group for one another. The members who attend the meetings and actively participate will learn by

doing and get the most experience for use in their businesses. Marketing clubs offer producers and others a method for gaining in-depth knowledge over time. Members have access to a continuing education program featuring a very hands-on, problem oriented approach that will increase their marketing and other risk management skills.

Partial funding support has been provided by the Texas Corn Producers, Texas Farm Bureau, and Cotton Inc.–Texas State Support Committee.

Produced by AgriLife Communications, The Texas A&M System  
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Issued in furtherance of Cooperative Extension Work in Agriculture and Home Economics, Acts of Congress of May 8, 1914, as amended, and June 30, 1914, in cooperation with the United States Department of Agriculture. Edward G. Smith, Director, Texas AgriLife Extension Service, The Texas A&M System.