

Farmer's Corner



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A Big-Picture Perspective Leads to Better Marketing Decisions

In the past year have you ever said, "If only I would have. . .?" Or "You know, I thought about that but. . .?" Let's talk about that for a minute. What is it that makes it so hard to make good marketing decisions? For most, it's going to be one of two things: fear (being afraid of not selling a crop before it's been raised) or greed (fear of selling too low).

The hardest thing for any producer to do is get past those two barriers to more consistent, more profitable marketing. Forward selling at profitable levels using target contracts will dramatically improve your outcomes. **Those who have been able to successfully adopt this type of marketing have accepted some key points as reality.**

First, you will never get the highest price available. In fact, many times the market may continue up after you sell. Has that happened to you before? Of course it has. It happens to all farmers, no matter how you market your crops, and it will continue to happen. There will be years where it looks like you sold way too soon. But the success of marketing is not truly measured in the outcome of any one year. We're talking about consistently selling at profitable levels, year after year, crop after crop, and that **will** lead to greater success and stability than selling randomly or, as happens so often, selling because of a need for cash flow.

Second, there is always a risk of non-production. There are good plans for dealing with that. Crop insurance can be a huge help in that area. It's vital to have a good understanding of what kind of insurance you have and how it can supplement your marketing program. The option market can also provide valuable protection against having to buy out of a contract.

Third, they are in farming for the long haul. That means the overall goal is to sell at a profitable average. Most farmers willingly admit that if they have sold \$10 soybeans once, they have sold for loan rate or less many times. This doesn't result in a very good overall average.

The key to long term success is to sell a profit, and to do that you need to have a solid, well thought out plan.

The Plan

1. Determine on average what yields you can expect and how many acres you plan to plant. This will tell you how much grain you have to sell on average every year.
2. Determine how much it costs you to raise that crop per acre.
3. Determine how much profit per acre you are willing to accept and be satisfied with.
4. Determine the target price by adding your cost per acre and the profit per acre and divide that number by your average yield.
5. Put targets in to sell grain.

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The plan is really that simple. Making yourself comfortable with that plan is the hard part. Getting yourself comfortable with the numbers will be getting yourself started well along the road.

Getting yourself past the uncertainty of raising the crop is another issue that must be dealt with. There are a three ways to deal with uncertainty of production, and you should be familiar with those.

How Variable Is My Yield, Really?

For most people, half a crop is about as bad as it gets. Some areas experience more swings in yields than others, but the point is that every person has a certain comfort level where they feel that they would be willing to forward contract. For some it might be 20-30%, others might say 75% or more. The key point is to find your comfort level.

Crop Insurance

The recent changes in crop insurance have led to some really good things in marketing crops ahead. In fact, that's the key reason that the Revenue Assurance (with the fall price option) and the CRC or Crop Revenue Coverage policies came into being. The goal for these policies is to promote good marketing habits.

Talking to your crop insurance agent now to understand the details can relieve a great amount of marketing stress. Once you have that understanding, you will begin to understand that the "what if I sell grain, don't raise it and

the market goes up" is taken care of in these policies, you will feel more confident in making those profitable sales.

In both policies, the producer has a base price in the spring that he is guaranteed to receive on a certain percentage of the crop, but has the option to receive the fall price if it is higher. That means if you forward contract, the insurance value increases to offset the cost of buying out of your contract if you don't raise the bushels.

Options

For those that don't purchase crop insurance of the type we've discussed or just can't stand to miss out on a rally, you can use options to stay in the market.

Staying in the market with options allows you to sell your grain at a profitable price and participate in higher prices if the market rallies. This means that if you raise the grain, your grain is worth more, or if you don't raise the grain, you have the money in the contract to buy out.

Summary

Marketing success is about the long term. Selling at a good overall average is what will put the kids through college or allow you to retire comfortably. You must understand how to deal with the anxiety of locking in good prices and seeing the market move higher in those few years where that happens. The good marketer spends time focusing on the next opportunity to come, not what has happened in the past.

Who Tells You When To Sell?

Many producers find themselves involved, probably not entirely by choice or even consciously, in what we call event-oriented selling. In other words, the decision to sell is often made not by the producer, but by some event that requires the producer to spend some cash. Tax time, land payments, holidays, and equipment repair are just a few examples.

The obvious weakness of this type of selling is that the need for cash flow and good prices do not necessarily coincide. Taxes are due April 15 every year, whether prices are high or low. School starts the same time each year, regardless of whether prices are good or not. Equipment doesn't wait for a rally before it breaks down.

What that means is, event-oriented selling is a roll of the dice. There is no guarantee that the need for cash will arise at the same time as a reasonable selling price. Of course, when cash is a necessity, the grain has to be sold no matter what the price is.

That's why we recommend setting a price goal early, and turning your grain into money as soon as possible at a reasonable price. Good business decisions are a better reason to sell than financial need.

Habits of Successful Farm Marketers

Look At The Big Picture . . .

Farming is not a short-term business—it's a lifetime endeavor. The overall success of your farming efforts will not be determined by any one year or by any particular instance of selling for a great price. Each year, each harvest, is one brick in the structure of a successful lifetime of farming. If looking at the big picture becomes a habit, you will find that you are not easily caught up in emotional turmoil that can cloud your mind and cause you to make bad decisions.

Focus On Profit, Not Price . . .

In farming, as in any business, consistently selling your product at a profit is the key to long-term success. Farmers, though, have the added opportunity (and sometimes distraction) of being able to choose from many different and sometimes widely varied prices for their product. The value of a single crop can change dramatically from day to day, from well before it is planted until well after it is harvested. If you are focused on price movement, it is almost impossible to stick to any sort of plan. The key is to turn your attention to selling at a particular profit level. Once you have developed a habit of capturing that profit consistently, you will be much less likely to be distracted by movements in price.

Sell As Soon As You Can . . .

On many occasions, the price that will allow you to reach your desired profit margin on a crop becomes available well before the crop is harvested, or even before it is planted. You may be able to achieve your profit goal several different times, or the opportunity may come only once. If you are going to reach your goal of selling profitable every year, you have to be ready and willing to take advantage of the earliest opportunity to sell. At first, the decision to sell a crop that isn't finished growing yet (or that hasn't even been planted yet) can be a difficult one, but it is necessary to make a plan like this work, and will prove itself in the long run.

Manage The Future, Don't Worry About The Past . . .

It is very easy to lose focus if you agonize over missed opportunities. The past is over; it cannot be changed, it will not get any better or any worse, and no amount of wishing will make it go away or come back. The past cannot be managed, but the future can. Concentrating on the past is a habit that can be very damaging to your ability to focus on capturing future opportunities. Whatever happened last year or last week cannot be changed. You can, however, make a very real difference in what will happen to you from now on. Making a habit of managing for the future will help you achieve a greater level of success in business and in life than living in the past will.

The Secret Is, There Is No Secret



There are people who would like for you to believe that successful, profitable crop marketing requires some sort of insider or expert information about when and how prices are going to move. These same people are more than happy to provide you with this very information, for a fee of course. There are many different sources out there with many different opinions and price prediction techniques, and almost all of them will be right from time to time. Of course, the opposite is also true.



There is no special secret to successful marketing. In fact, those producers who enjoy consistent profits and stability will tell you that they owe it to personal discipline and consistency rather than to any insider information. That's why we try to keep our message consistent in low prices and high, before, during, and after harvest, all the time. Circumstances change, but the simple and disciplined practices that are the foundation of successful marketing do not.

So, we'll keep on putting out the same message, because we truly believe that the simple alternatives we always talk about are the surest way for you to reach your goals through farming.