Farmer's Corner

"Helping The Producer Sell Better"

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A Question of Perspective

A person's outlook on any given subject is formed to a large extent by environment - how they were raised, the influence of their parents and other influential people, life experiences, and many other factors go into shaping it. An individual's perspective affects their actions - this is true as much in grain marketing as in any other area.

Perspective is changed over time as actions produce results, and those results are viewed in hindsight. In marketing, there is a tendency to look back and say, "I really called that one right" or "I really messed that up". Surely every farmer that has ever sold a bushel of grain has probably said both of these statements; many times both would apply to the same marketing year!

The last two crop years or so have presented challenges that for most farmers have no clear historical precedent. For the most part, with good yields and prices that reached levels never seen before, outcomes have been very good. But these markets have truly been a double edged sword; there have also been very volatile grain prices and input costs that make the already challenging job of grain marketing even harder. These new challenges require a new perspective in a few important areas.

Financing

There are increasing challenges in financing a farming operation. There has been tightening of credit requirements, an increase in working capital necessary to leverage loans, and even some banks requiring written marketing plans prior to loan approval. Bankers want to have more in depth conversations about farming operations and how you plan to make them work financially given this volatile environment.

For many years, growers were fortunate to have what has been described as a "loose" relationship with lenders, thanks in part to a built-in safety net.

In most cases, the breakeven cost per bushel for grain crops was at or below the F.S.A. loan rate. From the banker's perspective, this was a great thing. If the farmer would happen to not do a very good job of marketing, and he had an average crop, the worst case scenario was that the loan would cover most, if not all, of his production costs with little or no effect on working capital.

This means that lenders had little to worry about with most of the producers being able to make ends meet and repay their loans. For the producers that were not in as good a financial position, there was crop insurance to help with short crop scenarios enabling them to "hold things together" for another year.

Enter the fall of 2007, when it could be said that the world changed. Grain prices rose dramatically, and at the same time, the prices of diesel fuel; fertilizer and chemicals began their rise to all-time highs. All of us remember the stress we felt during those times and remember thinking how in the world are we to survive this? What does it mean to my marketing plans?

These changes had a big impact on ag lenders too. Loan rates have remained the same and appear to be locked for the foreseeable future. This means that the lender is loaning more money per acre for significantly higher inputs, while the marketing "guarantee" of the loan rate stayed the same. In other words, they now stood to have a significant amount of their money at risk until the farmer repaid the loan.

Here's an example of what we're talking about:

	Corn	**Beans**
Cost/Acre	$500	$350
Avg. Yield	180	55
Current Price	$3.16	$9.95
Market Value	$568.80	$547.25
Loan Price	$1.92	$4.89
Loan Value	$345.60	$270.60
Capital at Risk/Acre	$223.20	$276.65

The impact on the financial position of the individual producer was changed dramatically. They now had a significant portion of their financial wealth placed at risk to the most volatile markets that any had ever seen. For many, this led to an extreme amount of stress and looking for solutions to helping them deal with these pressing issues.

Marketing

While it is true that for many this situation led to a period of re-evaluation of their marketing programs, for others this was a confirmation of long held beliefs and marketing values. A straightforward, common sense, profit-based approach to marketing served the producer well before volatile markets and it will continue to do so.

The producer that follows the practice of knowing what his costs are per acre, establishing a clear profit goal per acre; and entering targets that allow them to capture that goal, have been able to enjoy a level of consistency in their outcomes. This has meant that these producers sold grain at what appeared to be "cheap" levels below where their neighbors might have sold their grain, but the reality is that they did sell at price levels that did allow them to realize their profit goals.

In the fall of 2008, when fertilizer prices for the spring of 2009 were at their peak, there were opportunities to sell part of their 2009 crops at their desired profit goals per acre based on average yield expectations. In many cases, the actual yields have been much larger than their expectations and with current prices where they are, they have been able to have better outcomes than they expected.

At this point, even if you have not sold that much of this year's crop, when looking at the yield you achieved and the current price, many will still see a fairly decent return on their investment. If you were fortunate to capture some of the earlier higher prices, you have the opportunity to have what might be one of the best years in recent memory.

At the recent DTN/The Progressive Farmer Ag Summit, one of the features speakers spoke about the changes in perspective that are necessary for success. Read his comments below.

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Hope Isn't A Good Risk Strategy

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CHICAGO (DTN) — Farmers looking for answers in turbulent times need to know there is no silver bullet for turmoil in the markets or the economy, a Purdue University professor told farmers at the DTN/The Progressive Farmer Ag Summit.

Allan Gray, director of the Purdue University Center for Food and Agricultural Business, kicked off the summit Wednesday questioning why so many producers don't take advantage of the tools available to manage financial risks on their farms. Overall, only the largest farmers consistently use forward contracts, hedging or put options. Often farmers are willing to rely on "hope" to protect their crops.

" My data really bothers me that with the risk management tools out there today we've got less than 50 percent of the users who are using them," Gray said, acknowledging that some tools can be costly to buy. "When you have got these volatile markets, the insurance is expensive."

Gray offered advice on managing risks and not gambling with price expectations. If you bought $20,000 in fertilizer, he said the wisest decision would be to then turn around and sell $20,000 in corn to cover it rather than trying to hold out for the top of the market — particularly given that a higher market may not appear.

"If you are going to manage risks, you are going to give away some profit," Gray said.

Farmers really didn't have to cope much with volatility until 2006 because lower overall commodity prices were basically covered by farm programs. That isn't the case now as farm program payments don't kick in until way below the current cost of production per bushel.

"What the government used to do is take volatility out of the market, but it ain't there anymore," Gray said of government protection.

Looking Forward

The way we approach our marketing of crops must change. For many, this means a change in our perspective, the way we approach the marketing of our crops. In this new environment, the producer must become more business-like in his marketing approach. He must become a more profit-based seller. He must know what his cost of production is, or is going to be. This means staying in contact with both the people that he's buying his inputs from and the people that he can sell his grain to.

The producer of the future MUST be able to instill a "profit discipline" into his decision making processes. He must utilize the resources available to him, his banker, his agronomist, and his elevator. These folks are here to help you make the best decisions based on what you know right now. They can help you to implement a profit based strategy of marketing that will see you through these volatile times.

Many stories have been shared around coffee tables lately about the “mold” issues with this year’s crop. Most of this information may or may not be valid for your area. What is certain is that this crop has some issues and there is a potential for problems come spring and warmer weather. Keep a close eye on your grain in the bin, and remember, grain that has been sold and delivered to the elevator isn’t your problem anymore! Making profitable sales removes a whole lot of worries for you!