

Farmer's Corner



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Number 2

Marketing Made Simple

Increased access to and availability of information in our modern world from myriad sources has made it possible to almost instantly present our brains with a bewildering, paralyzing, array of facts on any subject. The cash grain marketing business, perhaps, leads the way in sheer volume of information not only available to, but actively foisted upon, its target audience.

Where does all this readily available information get us? There's an easy and very relevant answer to that question for every marketer of cash grain. Take your total number of bushels sold for the past few years, divide that by the number of dollars your buyers paid you, and the resulting number will be your average selling price. If you don't have those numbers, we may be able to provide them for you.

Here is a very general guide to average selling prices in major grain states over the last five years. These are for the crop years 2000-2004, and assume the grain was put in storage at harvest and sold on an average date of March 1. These prices have storage and interest deducted, and do not include any government payments.

Corn	\$1.90
Soybeans	\$5.20
HRW Wheat	\$2.60
SRW Wheat	\$2.40

Maybe your average is similar to these, and maybe it isn't. These numbers are intended to motivate you to find out what your average is. Many producers are shocked to find out that their average selling price is much lower than they might have expected.

Why all this emphasis on your average? Because it is without any doubt the most important number you need to know in regards to your marketing efforts. Your average selling price over the years you spend farming determines how much money you have to pay off debt, expand your operation, save for retirement, help your children attend college, or any other goals you may have.

Your average selling price is a subjective, firm, and very real indicator of the success of your past marketing efforts, whatever they are. It is, in fact, the undeniable result of your approach to marketing, and it is without any doubt the benchmark by which all your decisions to sell should be judged.

For the rest of this issue, we will ask you to make a simple commitment that will lead to tangible results if you can do it - a commitment to raising your average selling price.

Please take the time to read the following information; it has the potential to simplify your marketing, increase your cash flow, and make you a more successful farmer.

IN THIS ISSUE:

▫ Marketing Made Simple ▫ Raising Your Average Selling Price ▫ Coffee Shop

Raising Your Average Selling Price

Accurately determine your average

Before you can work on raising your average, you have to know what it is. Take some time to look through your records. You need to divide the number of bushels sold for a given crop year by the number of dollars received from your buyers. The last five years will give you a relatively good cross-section of high, low, and average priced years, although there's no reason not to use more years if the information is readily available.

Accept your average as the most meaningful and actionable benchmark available to you

Regardless of how high prices have been, how low they've been, and what anyone may have advised you or failed to advise you, your selling average is the true result of your final selling decisions over the last few years. It is the amount of money you've been surviving (or thriving) on.

With baseball season upon us, perhaps an analogy is in order. A player's lifetime batting average is, in fact, the final measure of his success in hitting the ball. It doesn't matter how much time or money he spent training, what might have happened under different circumstances, how much better he feels like he could do if he had it to do over again, or anything else. His batting average is historical fact. Your selling average is the same.

Determine whether your average can be improved, and set a goal if applicable

The next step is to compare your average to historically available prices. Again, we can help you with this information. If your average is lower than what has been consistently available, your job is easy. Simply set a price goal that is higher than your average, and work on getting more bushels sold at that price.

We recommend Target Contracts as the simplest way to get this job done. A Target Contract (aka Firm Offer) is simply an agreement between you and us, that we will buy your grain at a certain price if it becomes available, and you will sell your grain to us at that price.

Remove barriers to your success

There are a few objections that may spring to mind as you consider this plan.

"I can't enter Target Contracts that low!"

Perhaps the consistently achievable historical price seems too low to commit bushels ahead of time. For example, perhaps your 5-year average selling price for corn is \$1.95, and you could have sold for \$2.15 each of the last 5 years. Does \$2.15 seem much too low a price to be selling 2005 bushels? The truth is, it's 20¢ higher than your average. You've been selling \$1.95, so for every 10,000 bushels of corn you sell at \$2.15, an extra \$2,000 goes right to your bottom line. The fear of selling "too low" is precisely what causes so many to end up with low averages. Eventually, the need for cash becomes the motivator to sell, and price is irrelevant. Why not be motivated by raising your average instead?

"I can't commit to a price ahead of time, because I need higher prices in years where I have lower yields."

Certain types of crop insurance or the options market can offset this concern. In addition, you might consider raising your average in small steps. For example, why not sell 25% of your average yield at a price higher than your current average?

"I entered a Target Contract earlier, but the market is hot now. Why shouldn't I cancel it and see where this goes?"

Remember, you entered a Target Contract where you did for a reason, and your past approach to marketing has produced your past results. If you're not happy with them, you can only get different results by taking a different approach to marketing.

Past Results

	Bushels Sold	÷	Dollars Received from Buyers	=	Avg Price
2000		÷		=	
2001		÷		=	
2002		÷		=	
2003		÷		=	
2004		÷		=	

Total		÷		=		Overall Avg
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Consistent Selling Opportunity

I could have sold each of the last 5 crops for \$_____

Future Selling Goals

Average bushels grown over the last _____ years:
 (Total bushels ÷ by number of years)

I will sell _____ bushels at the consistent selling price above, in order to raise my average selling price.

TARGET CONTRACT

I, _____, offer to sell
 _____ bushels of
 _____ to _____
 at a price of \$_____ per bushel.

Delivered To: _____

Delivery Period: _____

_____ Date _____ 20____
 (Producer)

_____ Date _____ 20____
 (Elevator)

TARGET CONTRACT

I, _____, offer to sell
 _____ bushels of
 _____ to _____
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 (Elevator)

Who Tells You When to Sell?

Many producers find themselves involved, probably not by conscious design, in what might be called event-oriented selling. What does that mean? It means that the motivator to sell was not a business decision by the producer, but some event that requires cash flow. Tax time, payment due dates, input costs for next year's crop, holidays, and equipment repair are just a few examples.



The obvious fault of this method of deciding when to sell is that the events happen no matter what the current price level is. Taxes are due April 15 every year, no matter whether prices are high or low. Planting 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.