

# Farmer's Corner



September/October 2004

Number 9

## Make Good Use of Merchandising Lessons

Every new crop gives us the chance to apply lessons learned from marketing past crops.

Here are a few marketing rules of thumb that have made themselves clear over the last several years.

### **1. Most of the time, prices for a particular crop reach their highest at some point before that crop is harvested.**

One of the biggest reasons this is true is that prices after harvest must be reduced by the costs of storage and interest. In other words, if the cost of holding a crop after harvest is 4¢ per month, then four months after harvest the price must have increased by more than 16¢ per bushel to produce any extra money when the crop is sold.

Another reason is that prices available before a crop is harvested, or even planted, are based on people's opinions about a million factors, or artificially pulled up by issues with the current crop, and have no bearing in reality.

Obviously, there are exceptions to this rule of thumb. This last year, for example, certainly rewarded those who stored crops after harvest. However, over a lifetime of farming more money is lost than earned by selling crops after harvest.

### **2. Without a plan, high prices don't necessarily result in more income.**

Chances are many of you know someone who didn't sell, or didn't sell enough, during the rally. It's hard to sell on the way up, and even harder on the way down.

Those who routinely make tough selling decisions usually rely on some form of discipline, often a written plan that says, "when the price gets to X, I will sell." Once a simple, written plan is in place, it's much easier to set up disciplined processes to set that plan into action and have the plan executed automatically, with no opportunity for the second-guessing and what-iffing that causes so many to put off important decisions.

### **3. Low prices don't necessarily mean less income.**

If you are faced with lower prices but substantially higher yields, chances are your income from the crop will be much better than it might seem at first glance.

Yields make a big difference in profitability, and higher yield/lower price years usually result in better returns than lower yield/higher price years.

Take a look at the worksheet on the next page to figure your return on 2004 crops.

### **4. Staying in the market after harvest always costs, but it can be risk-free.**

Unfortunately, storing grain after harvest offers no guarantee that the price won't go down. The option market offers a much better opportunity; for a cost that is similar and in some cases lower, you can participate in higher prices and be completely protected against lower prices - the best of both worlds!

### **IN THIS ISSUE:**

- Make Good Use of Marketing Lessons
- What is the Value of Your Crop?
- The Cycle of Inaction
- I Have My Own Bins; Does Any of This Apply to Me?
- Coffee Shop

This worksheet will help you figure the value of your crop based on forward contracting results, bushels left to sell at current prices, and farm payments from other sources. If you have any questions, give us a call.

## WHAT'S THE VALUE OF YOUR CROP?

Yield Per Acre	_____	
X Total Acres	_____	
<hr style="border: 0.5px solid black;"/>		
Total Bushels to Market		_____
Bushels Forward Contracted	_____	
X Average Forward Contract Price	_____	
<hr style="border: 0.5px solid black;"/>		
Income from Forward Contracts		\$ _____
Today's Cash Price	_____	
+ LDP	_____	
<hr style="border: 0.5px solid black;"/>		
Current Market Price	_____	
X Bushels Left to Market	_____	
<hr style="border: 0.5px solid black;"/>		
Income from Remaining Bushels		\$ _____
Direct Payment per Acre	_____	
X Total Acres	_____	
<hr style="border: 0.5px solid black;"/>		
Income from Direct Payment		\$ _____
Other Payments per Acre	_____	
X Total Acres	_____	
<hr style="border: 0.5px solid black;"/>		
Income from Other Payments		\$ _____
TOTAL CROP REVENUE		\$ _____
Cost Per Acre	_____	
X Total Acres	_____	
<hr style="border: 0.5px solid black;"/>		
TOTAL CROP COST		\$ _____
TOTAL NET PROFIT		\$ _____
NET PROFIT PER ACRE		\$ _____

# The Cycle Of Inaction

## *Don't Let It Happen To You*

One of the most dangerous things you can do is to do nothing at all. Inaction leads to indecision, which leads to the breakdown of discipline, which in turn leads to bad decisions. We've all known someone (or maybe even been the person) who's chosen to "wait and see" instead of taking some kind of positive action, only to watch as opportunity slips away.

Taking action doesn't necessarily mean just selling grain. It means having a plan that puts you in a position to take advantage of opportunities and get grain sold when the time is right. It's easy to say, "I'll sell when the price is right", but if you haven't taken any action ahead of time to decide what the right price is and get a plan together, it's sometimes hard to actually pull the trigger when the time comes.

That's why it's important to take some kind of action ahead of time, like putting in a target. Having a plan encourages discipline, helps you stay focused on your goals, and helps eliminate the desire to get "just a little bit more" that can cause you to get off track and miss opportunities.

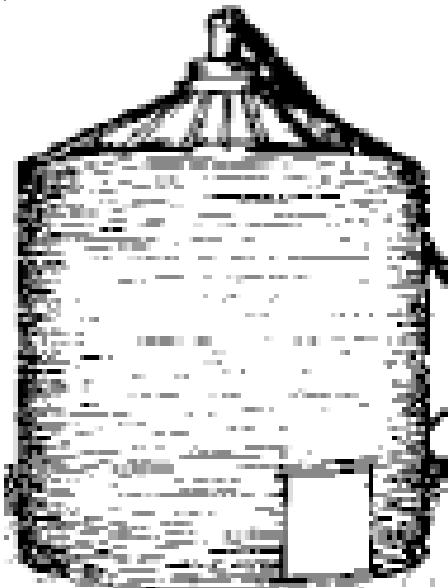
Doing nothing is dangerous, whether it's failing to put in targets before harvest or storing grain after harvest. Taking positive action will keep you out of that trap and get you closer to your goals.



---

## "I have my own bins; does any of this apply to me?"

Any of the marketing alternatives we talk about in this newsletter apply just as well to grain put in farm bins at harvest as they do to grain brought to the elevator. If you have your own bins, all the principles of profitable marketing apply. The only difference is in the delivery period.



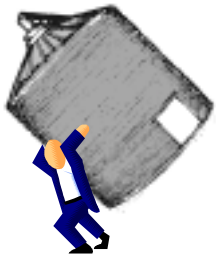
The important thing to remember is that bins are a tool, just like a combine or tractor. They allow you to proceed with harvesting at your convenience, without the need to wait in lines at the elevator.

In some cases they enable you to sell at a premium for after harvest shipment, but they should not be considered a marketing tool in and of themselves.

Storing unsold grain at home may cost less than storing it commercially, but the same pitfalls of storage still apply; you're still putting equity at risk by carrying grain with no price attached to it.

We accept Target Contracts for any delivery period. Please do what you can to make the most of your bins by entering targets to lock in profitable prices for after harvest delivery.

P.S. - You can also enter Target Contracts for a later delivery period for grain stored with us.



# Old Crop is a Burden



History shows it clearly, and the last three years or so have really hammered the point home. Storing old crop grain simply does not pay. Not only doesn't it pay, it costs, and in more ways than one.

***Old Crop is a burden financially*** - Storing grain means incurring costs that continue to mount up every day until the grain is sold. Over the past few years, the costs of storage combined with falling prices have produced very poor results when grain is finally sold.

***Old Crop is a burden mentally*** - Producers who are still trying to make a decision about old crop bushels are effectively crippled for making any plans for new crop. An old crop position has a way of consuming all available mental resources until some decision is made.

Stored old crop consistently accomplishes two things; it decreases in value, and it effectively thwarts good new crop marketing decisions by being a constant source of stress and worry. We strongly encourage you to relieve yourself of the burden of old crop by turning grain into money at harvest. You'll be amazed at how much of a relief it is to be storing money instead of grain.