

ProfitTalk

Simple perspective on disciplined grain marketing for producers



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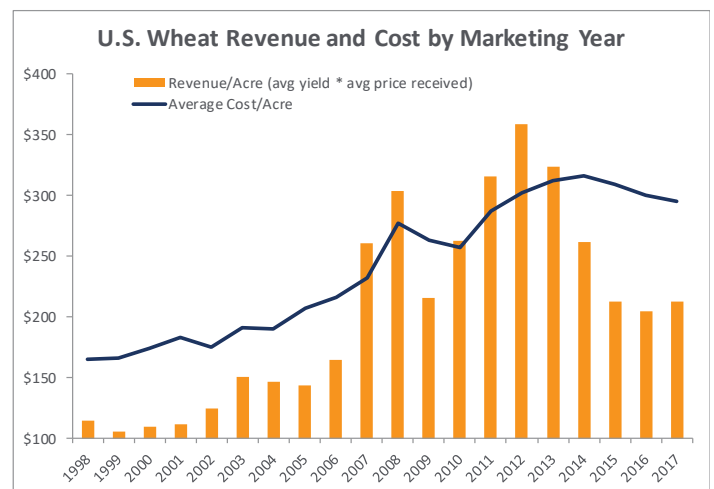
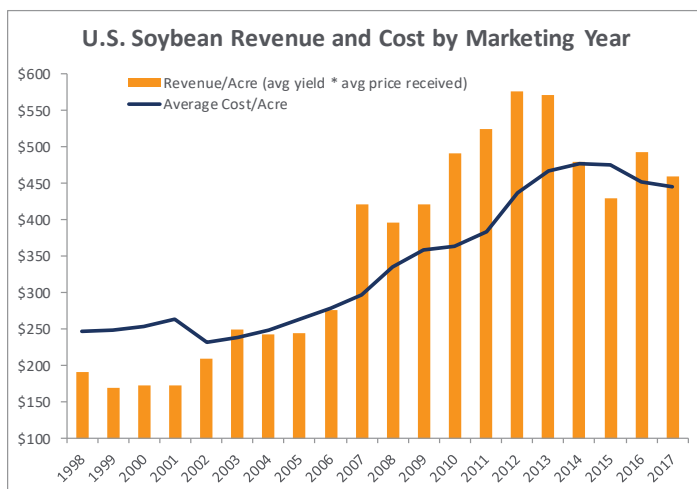
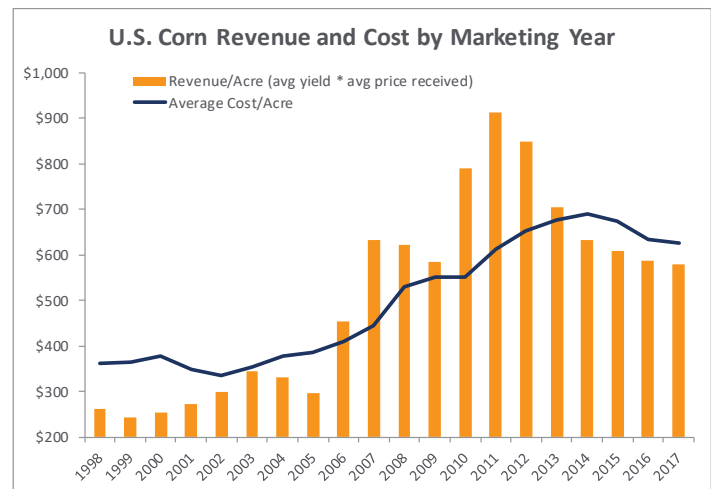
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Better than Average

Farming is inherently filled with risks. You take risk on the land you buy or rent. You take risks with your inputs including seed, fertilizer, herbicide, pesticide and more. You take risk in pricing those inputs. You take risks on planting dates. You take risk in financing your operation and on the future of your livelihood for yourself and your children. More risks could be listed, but the fact is farmers are not averse to risk.

Given this fact, it is no surprise that risk tolerance shows up in farmer marketing practices as well. While many utilize crop insurance programs that can certainly dull the pain of catastrophic crop failure and even add a boost in poorly performing crops or markets, there is still a sizable amount of opportunity and risk in marketing grain. I talked to a farmer the other day who had some of his 2017 crop in the bin, little of his 2018 crop priced and certainly was not thinking about a plan for 2019 crop. Some are in similar situations with grain on storage or price later from 2017 and not having much sold for 2018. These examples are not uncommon and show the willingness some have to carry price risk on their crops.

Risk taking is necessary but a quick look at the following charts tells a story.



In many years, the average cost/acre is not being covered by the average revenue/acre. The story is that the average farm is underwater (note that no government or crop insurance payments are included in these figures). It's reasonable to say that on average, farmers without a marketing plan sell when they must, not when it is favorable. Whether time and space are no longer available or the bills need paid then the decision is pushed back until you give up or you are forced into selling for cash flow.

So, how can you make sure you do better than average? Here are some steps that will help do better than average.

Step 1 Kill Ambiguity by Defining Success

I've asked the following question too many times in marketing meetings, in regard to return on investment. "How much do you want to make?" Inevitably someone pipes up with, "As much as I can get!" Well, that would be great, but what does this answer do for you? Nothing. It provides no obtainable goal, no actionable data and leaves nothing but ambiguity in the air. Ambiguity breeds stress, and I think you have enough stress in your life.

I've stopped asking that question and started asking, "How do you define success on the farm?" Now, I usually have someone who will say that making more money than they started with is success. Good answer! Kill ambiguity by defining success for your farm each year. Take your known APH, known costs and set some reasonable profitable goals for your farm. Don't just do it and throw in a drawer either. Pin it over your desk or put a sticky on your dash board or make yourself accountable to your family by using yet another magnet on the fridge. It's that important and will help you act according to knowledge rather than emotion.

Step 2 Get Ahead of Your Harvest

It is hard to be focused on next year's crop when you're worried about grain in the bin or on some type of storage. Moving from deciding what to do with unsold harvested grain to proactively pricing an unharvested crop can be a difficult change to make for some. As soon as the grain is on the combine time and space are working against you. When you can put last year's crop behind you, you'll find it easier to keep your eyes ahead for opportunity.

While this is difficult, perhaps this is the year to get ahead. Prices are less than desirable, but what does revenue look like with this year's potential yield? While isolated areas might not have above average yield, it appears most regions do. Take an honest look at yield expectation and apply it to your marketing plan. \$3.50 corn at 180 bu./acre is equivalent to 160 bu. Corn at \$3.94. Likewise, \$8.25/bu. for beans at 58 bu./acre is equivalent to 50 bu./acre at \$9.57 (these numbers may not be relevant anymore, but run your numbers to be sure where you are). Simple math, but not so simple to act on. No one enjoys settling for lower prices than they could have locked in, but ultimately revenue per acre is more important than price per bushel. It may be difficult, but take the profit and move on to next year.

Step 3 Take Action for Success

Be a seller of grain and not a holder of grain. For several years prior to 2006 producers had to work hard at marketing their grain to maximize profit. Then 2006 happened, and we saw unprecedented volatility. From 2006 to 2013, farmers resolve was challenged. It seemed that you were penalized if you were proactive in marketing your grain and those who did nothing capitalized on higher prices at harvest. This impacted the good practice of forward contracting, and for several years now many have passed on good forward pricing opportunities only to watch prices drop as harvest approached. Fortunately, this trend is starting to reverse as many took advantage of this year's spring pricing opportunities.

These past few years and the current situation for 2018 remind us of how important having a written plan with profit goals and being a proactive seller is to long term success. Getting grain sold when the market provides profitable prices combined with not adding storage or stay-in-the-market costs will help you be better than average.