

# Farmer's Corner



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## BRAINWASHED?

### 8 Ways to Reinvent Your Farm Marketing

We are persuaded, encouraged, reinforced, and even brainwashed by the repetitive indoctrination of our counselors that "selling at a high price should be our chief objective." Selling at a high price certainly seems logical if you are to obtain a profit. It doesn't seem like a bad idea at all, come to think of it. "That is certainly where I should focus my thoughts, even my dreams" thought many.

#### ① Change Your Focus from Price to Profit

The standard 4-seat Model T of 1909 cost \$850. By the 1920s, the price had fallen to \$290 because of increasing efficiencies of assembly line technique and volume. Henry Ford probably didn't drop his margin; in other words, he was making the same amount of money per car at \$850 and \$290. It's probably safe to say that in 2010, Ford's profit margin is not dramatically different than it was 100 years ago, even though a Ford car costs tens of thousands of dollars now. Even if that isn't the case, the point remains that **price is only one factor of many that influence Profit**. If it is safe to say the profit on a modern day Ford is close to what it was back in the early days, we can certainly see it takes a lot more dollars to produce the same "margin" (dollars per unit) today.

Farm Marketing is no different. It takes more dollars today to produce the same amount of profit per acre than it did 7 years ago. *The challenge is to market it for profit*. In reality, the past few years have taught us that not only are prices volatile but inputs are also extremely volatile and high prices don't always equal the highest margin. The price you sell at is only one part of the equation - a much more important part is what kind of profit margin that price represents.

#### ② Commit to Planning

The first step in successful marketing is to plan for average. This may sound like a self help guru flipped out. Some people play it safe while others go for the home run. Who plans for average? Profitable growers do. Knowing your Actual Production History is the key element to the planning process. APH is what you should look to market each and every year.

Another key element to planning is figuring production cost. A huge percentage of inputs is seed and fertilizer. Plugging those two factors into a budget with your equipment schedules makes for a reasonable cost assessment. Fuel, labor and other misc. expenses complete the cost calculation and the easy part is done - you have everything you need to compute breakeven cost.

What is left is the hardest part of the planning process. You have to make a few decisions:

1. What is a reasonable profit to expect from my operation?
2. At what price do I want to sell my crop?
3. How much do I sell at one time?
4. When do I start selling?

All of these questions can be answered during the planning process.

### ③ **Decide on a Reasonable Profit**

Developing meaningful benchmarks in a business is very important. Typical farming margins differ from state to state, even county to county. There are certainly many standards available to measure profit. The accountant uses ratios like ROI (return on investment), the banker is always focused on cash flow and the IRS has its measurements. The particular method you use to figure profit is not as important as simply having some method. Not establishing a reasonable profit goal means abandoning your marketing plan and giving your future over to the moves in the market. You lose control. Whether it is \$40 an acre or \$140, establishing a reasonable desired profit is a crucial component in successful marketing.

### ④ **Sell All the Bushels**

Reasonable profits (total net dollars) are only obtained by selling the entire crop. No business plans on selling a portion of their inventory at a profit and then running a clearance on the rest. They try to match the production to sales to cover cost and desired profit. They may not always get it exactly right, but having inventory in the back that's not for sale is a concept long abandoned in most businesses.

### ⑤ **Expose Yourself to the Market**

How much do you think it would cost to pay someone to watch the market for you 17 hours a day? When you start to work your plan for profit, you are going to have to watch the market very closely to make sure that you can obtain your desired margin. You'll need discipline to sell your crop at a profit every year.

Target Contracts will help you watch the market for your desired price for **FREE**. Free? Yep, they expose your crop to the market place 17 hours a day at no cost to you. These contracts are tools that work to get your crop sold at your desired margin so you don't have to have a clearance sale after harvest. More and more bushels are being sold every year with "Targets" by the most successful grain marketers in the country. They know you can't make a profit with a crop that is not for sale.

## ⑥ Understand Crop Insurance

A crop insurance policy is a good tool to use with your marketing plan because it protects a portion of your revenue. Producers should always carefully consider how a particular policy will work in conjunction with their marketing plans to insure the best possible outcome each crop year. Crop insurance agents, along with your elevator personnel, can assist you in developing a good marketing plan using Targets and Crop Insurance. Understanding Crop Insurance is important to the farm today because of the huge risk that production Agriculture takes on each and every season. Commit to understanding crop insurance.

## ⑦ Understand Stay-in-the-Market

Crop Insurance only covers a portion of the crop. Stay-in-the-Market contracts can help with the other portion of the crop that is not covered by insurance. They can provide the assurance and confidence needed to sell 100% of your Actual Production History. Stay-in-the-Market contracts have a cost established at time of sale. The elevator can provide a minimum price for a set amount of bushels. “Stay-in-the-Market” bushels carry some interesting features. First, in the event of a production shortfall, there is no obligation to buy out of your contract, and second (assuming no shortfall in contracted bushels) they allow you to participate if the market should go higher. Like crop insurance, it takes a commitment to understand these contracts so they become a key ingredient in being able to reduce your marketing risk and lock in all of your desired margin.

## ⑧ Avoid the Hecklers

The hecklers are the people that stand behind you and tell you myths that will distract you from your plan. A lot of what is being presented as sound Farm Marketing is really an attempt to get you to buy into a fable. A fable is nothing more than an **improbable** account of something. There are lots of great fables in the world of Grain Marketing. Remember, a fable usually involves characters which are animals, like bears or bulls. The fable goes that I got so bullish that I just waited until the market climbed to it’s highest point and sold it all. The problem is that we’ve read the story. The tortoise beats the hare.

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# Reinvent Your Farm Marketing

For some it’s time to hit the reset button. Overhauling what you believe changes the game. Remember these eight simple fundamental tasks that can help you reinvent the bottom line.

- 1) Focus on Profit
- 2) Commit to Planning
- 3) Decide on a Reasonable Profit
- 4) Sell All the Bushels
- 5) Expose Yourself to the Market
- 6) Understand Crop Insurance
- 7) Understand Stay-in-the-Market
- 8) Avoid the Hecklers



I went shopping the other day with the wife. We are a typical family- she loves to shop and I don't. We went to the department store, she picked out a shirt, and we got in line at the check-out counter. There were two women in front of us that hadn't brought their husbands and thus they had a lot more items to check out. Seeing the line grow, the store quickly opened up another register. I was quick to point this out to my wife, and we moved to the new line, followed by the guy who was behind us.

All went well, except that after we moved they opened up two more lines. My wife turns to me and says "you made a bad decision." My contention was that we were still moving quicker than we had been, and were on our way out of the store according to plan. My wife's basis for her comment was what she saw happening around her after we made our decision. She's a lot like the farmer who sells his crop at a profit but then bases his analysis of the decision on what his neighbor did or what the market did after he sold.

Selling at a profit is always the right thing to do no matter what happens around you. You make a lot of assumptions when second guessing yourself. Who is to say that when the market did go up you would have sold it all at the top? When you make a good plan and follow through on it, you are making a good decision. The ruler for success ought to always be profit, not what happens after you make a decision.