ProfitTalk

Simple perspective on disciplined grain marketing for producers

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WHAT NOW?

Any fan of this great publication will know that we are staunch advocates for proactive grain marketing. Year after year, the market gives opportunities to market grain ahead of harvest and, over time, the most successful marketers will take advantage of this and come into harvest with much of their production sold.

Some years, including this one, the opportunities do not become obvious leaving many producers with much of their crop unsold when the combines start rolling. Furthermore, since exact yields are never known until harvest, even when the best efforts are made to contract ahead, producers will inevitably be left with some unsold grain entering harvest.

Unfortunately, additional marketing time after harvest will come with costs and/or risks.

There are certainly other marketing options out there, but let's look at the costs and/or risks involved with a few of the most common marketing options at harvest.

On Farm Storage

This is somewhat of a misnomer as farm storage is not a "marketing" tool but rather an aid in logistics. On farm bins certainly offer convenience and time after harvest to make sales (or hold grain to ship vs deferred sales), but the grain still needs to marketed, and there are certainly added costs and risks.

Costs:	Construction	Risks:	Repairs/Property damage
	Maintenance		Grain condition
	Electricity		*Lower prices
	Added labor		
	Extra handling and shipping		
	Added interest		

Bins are a big investment and if you already have them, it will often make sense to use them. However, avoid using them as an excuse to delay making good sales. Knowing that your bins give you flexibility in your delivery schedule, look for opportunities to sell grain ahead. It may be too late for this year, but this includes making sales prior to harvest for later delivery. Having the grain in your bins priced eliminates one huge risk (price).

Commercial Storage/Delayed Price (DP)/Price Later (PL)
Commercial storage and DP are popular because they are simple. You can deliver grain at harvest and for an up front and/or monthly fee, you can take your time making a selling decision.

Costs:		Risks:	
	Elevator initial and/or monthly fees Added interest		*Lower prices

Unfortunately, the only thing you receive in return for your fees is time. Though delivering your grain to the elevator removes all further condition risk, you remain at full price risk. You can easily end up selling for a lower price despite paying fees and adding to your interest costs.

Basis Contracts
Though you will be tied to harvest basis, basis contracts typically come with no out of pocket fees while allowing you some time for futures improvement. Of course, that is no guarantee. As with the 2 previous options, you can easily end up settling at a lower price later.

Costs: Added interest (maybe) Risks: *Lower prices

Basis contracts may come with a cash advance, which may be enough to get you away from paying more interest. However, being tied to a futures month, they also give a fairly limited amount of time, and rolling basis contracts in a carry market often leads to disappointment. Ultimately, locking in basis removes a small part of your price risk leaving you at full risk of lower futures prices.

Minimum Price Contracts
Minimum price contracts allow you to eliminate risk for an up-front fee.

Costs: Up-front fee Risks: None

The other great thing is that you will receive money (current price – fee) at the time of delivery halting further interest costs. If futures increase, you may collect more money later, but you have taken all risk of lower price off the table!

Cash Sales
This may seem like the least flashy of the options I've discussed, but it works. Though you have no opportunity for higher prices, you can eliminate all risk and get all your money in hand for no cost by simply selling you grain.

Costs: None Risks: None

Possibly the best thing about making cash sales is that you have no further decisions to make on those bushels. Any alternative that keeps you in the market requires an additional pricing decision to close out the transaction. Selling the bushels frees you to concentrate on marketing opportunities for your next crop.

Ideally, you will enter every harvest with some portion of your crop sold at a profitable number. For the remaining bushels, be sure to weigh the cost and risks of further marketing alternatives. If you choose to stay in the market with hopes for a price increase, be sure to make a realistic pricing goal and have a pricing target in place to finalize pricing.