

Farmer's *Corner*



January/February 2016

Number 1

Finding a Marketing Balance

While most farmers would say that marketing isn't the most enjoyable part of the job even in the best of times, the current environment makes it even more difficult than usual. That doesn't change the fact that all the bushels must be sold eventually. What is the best approach to marketing in this environment?

A sense of perspective and balance is vital in times like these. The lines of a potential - but not guaranteed - opportunity of a price rally and the need to generate cash flow and minimize the downside risk cross somewhere. That point of balance isn't the same for everyone, but everyone has it.

Inactivity is a trap - it's important to find a way to act on your goals. Do you need to establish a price floor? Do you have a specific upside goal? Do you want to protect the downside and keep the opportunity to participate in a rally? You can do all of those, but none of them happen without action.

The first step to action is nailing down some specifics. This formula has served producers well for many, many years. It may seem overly simplistic, but it does work!

1. Know your cost of production (actual for this year, estimated for next)
2. What is your financial goal for profit? (Has to be a number)
3. What was your yield? (What do you expect to raise?)
4. What is the target price you need for both old and new crop?
5. Take some action to achieve your goals.

An unsophisticated plan like this works because it frames all the big difficult questions of marketing in terms of return to you. Marketing will never be easy, but this perspective does help clear away some of the background noise that can distract from the main goal of marketing - to preserve and grow capital.

Once you know where you stand by the numbers, you can start to find the point of Marketing Balance.

Grain contracts range from 100% clear and simple to almost unexplainable. We prefer the former – simple contracts that will help you achieve your goals with no complications, hidden or apparent.

Target Contract – This simple agreement says that you will sell a certain number of bushels at a certain price if and when it becomes available. This order is in the market around the clock – over 17 hours of every business day. It's a great way to ensure that you don't miss your price goal due to odd timing or a lapse of discipline. Target Contracts are free to use and are the best method of exposing yourself to opportunity.

Forward Contract – This contract fixes the price for some future delivery point. It's a great tool for harvest bushels, farm stored bushels, or any bushels where a desirable premium is available for future delivery. The only way to guarantee a deferred premium is to sell it.

Minimum Price Contract – The MPC allows you to establish a price floor and stop/eliminate downside risk while still having the right to participate in a futures rally for a predetermined length of time. There is a cost that is usually competitive with storage. This contract includes immediate payment of the floor price upon delivery, so you don't have to wait for cash flow.

Selling at profitable levels is the ultimate goal. Finding the balance of risk and reward is the challenge. Each producer must find his own Market Balance, and feel comfortable with a plan that he has put in place.

While this approach is simple, it isn't easy; however, it is necessary in this environment. Our staff stands ready to help - stop in and let us sit down with you and help you find your Marketing Balance.