Farmer's Corner

"Helping The Producer Sell Better"

July/August 2015 Number 4

Playing Catch Up In a Transition of Abundance

It's no secret: there is a lot more old crop corn than normal that still needs to move, the crop progress in the large corn producing states are very positive to date, and prices are lower than they have been in recent years.

As a result of this, some grain companies have returned to offering unconventional marketing methods to entice the producer back into action. These alternatives are packaged in a variety of different ways, but underneath the wrapper are usually very similar. They offer the producer premiums for grain sold, reduced costs for Minimum Price Contracts, "free" grain bins and many other benefits ***in exchange for assuming some kind of risk***. In addition to this, undisclosed fees are typically collected from the producer making them quite lucrative to the company selling them when sold on a large scale.

While we also are very interested in inspiring our customers back to action, these types of contracts do not meet the criteria for what we are willing to offer our producers. Any marketing alternative that we offer our customers must meet two qualifications; 1) It must be in the best interest of our customer, and 2) It must be in the best interest of the elevator. We believe contracts like those described above put undue risk on the producer and will lead to poor elevator/farmer relations eventually. It is our goal to offer positive marketing alternatives that are easily understood and proven year after year to bring profit to our customers and our community.

Instead of jumping at the latest fad in contracts and taking on unfamiliar risk, it's time to sit down and make calm, rational decisions based on proven methods of marketing. As you are well aware, there are plenty of inherent risks already built into farming without adding new ones.

Your biggest challenge this summer may not be the low prices, but the logistics. Having an open and honest discussion with the merchandiser at the elevator may be in order. You need an access point to the marketplace that can help you get unloaded during a time when everyone wants to get their corn unloaded. *The folks that handle the large volumes and have sales contracts already on (elevators) will provide the greatest flexibility and options to the farmer trying to empty his bins this summer.*

Where Do I Stand?

While we know the low prices don't provide what you'd hoped for on your grain this year, when you put the whole picture together, it may not be as bad as you think. This worksheet will help you determine how your overall marketing picture looks when you combine previous sales with bushels left to be sold.

2014 - 2015 Marketing Evaluation

	Example	Actual
How Many Bushels Did You Produce?		
Average Yield Per Acre	170	
Total Acres	750	
Total Bushels to Market	127,500	
What's the Value of Bushels You've Already Sold?		
Bushels Forward Contracted	60,000	
Average Sale Price	$3.84	
Revenue from Forward Contracts	$230,400	
What Is Today's Value of Bushels Left To Sell?		
Bushels Left to Market	67,500	
Current Market Price	$3.50	
Revenue at Current Price	$236,250	
What Other Sources of Revenue Will You Get on This Crop? (Gov't Payments, Crop Insurance)	$0	
What Is Your Cost of Production Per Acre?	$600	
This is Where You Stand Today	**July 1, 2015**	
Revenue From the Sale of the Crop	$466,650	
Revenue From Other Sources	$0	
Cost of Production	$450,000	
Net Income From Crop	**$16,650**	
Profit Per Acre	**$22**	
Average Price Sold Per Bushel	**$3.66**	

What Do I Need to Do Next?

If the calculations above show you an acceptable return, it may be time to get grain sold and protect the equity you have in the crop. The general mood is bad because prices have moved lower, but if your earlier marketing decisions, a bigger than expected yield, or any other combination of factors have made the outcome better than you thought it was, getting past this crop with a positive outcome and moving on may be the best choice.

If, however, you determine that you need to stay in the market for a better price, you need to identify the best way of doing that. Simply storing bushels is the default method, but as you have no doubt experienced (or at least know someone who has), bushels in storage are subject to dropping prices as well as rising prices.

There is another simple method of staying in the market that offers the chance to participate in higher prices but eliminates the risk of lower prices, for a cost comparable to storage (at least for corn – the cost is somewhat higher for soybeans).

We call it a Minimum Price Contract. The mechanics are simple. You sell your grain and pay for the right to stay in the market until a later date. Because the grain is sold, you have no risk of receiving a lower price. Instead of being tied to the elevator's board price, you are tied to a futures month and price. These contracts offer a wealth of options to fit your needs. We can tailor it to fit your cost needs, coverage time, or delivery period. Come talk to us about how we can fit this to your new crop or old crop marketing plan.

What is the Best Way to Achieve My Goal?

Last year, storing grain resulted in a higher price; this year, it has not. Grain in storage can become worth more or less over time. Grain on a Minimum Price Contract can only keep its value or become worth more – it can never go down in value since you have a guaranteed floor price.

With prices lower than they have been but still above loan rate, grain in storage is at a substantial risk of losing equity because it does not have a price floor other than the loan rate.

We'd like the chance to talk to you about this in more detail. The more you are aware of your alternatives to protect equity, manage risk, and still be in the market, the more in control you can be.