

# Farmer's Corner



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Number 1

## Are You —— Really Ready —— for a Rally?

In talking to producers all across the country, you will find that they all say the same thing, over and over. "I'm really ready for a rally". It doesn't matter what crop you're talking about, and it doesn't matter how long it's been since the last rally, be it a week ago, a month ago, a year ago, 5 years ago, or maybe even 10 years ago.

Everyone will tell you that they are more than ready for a rally. Do you feel that way? The answer is probably yes, but are you REALLY ready for a rally?

Many times, farmers are ready for a rally right after a rally has happened, because they "missed it". "Boy if that market would only get back up to where it was a month ago, this time I'll pull the trigger."

The most likely reason for missing the last rally is that the producer wasn't REALLY ready. A lack of forward preparation makes it hard not to get

caught up in the emotion of the moment. Phrases like "Beans in the teens" and "\$6.00 corn" and the accompanying hysteria can lay ruin to the best of intentions. This is the kind of thinking you're likely to find yourself in when prices start moving if you haven't laid any groundwork ahead of time.

"I was going to buy a copy of the Power of Positive Thinking, and then I thought: what good would that do?"

*Ronnie Shakes*

Separating the emotion of marketing from the process of marketing is perhaps the greatest challenge faced by many producers.

The only way to be sure you are really ready for good prices when they happen is to make a commitment to changing the way you think about marketing.

At the beginning of this process, it's helpful to make a few of things clear.

1. You are not going to "hit the high" (unless you are very lucky)
2. The market will probably go higher.....AFTER you sell.
3. Selling at a profit is NEVER a bad thing....no matter how high the market goes.

Once you realize the truth of these statements, and accept them into your very soul, you will have a good start in your preparation. Accept them, live them and make them a part of your "marketing attitude".

We have talked many times in this publication about the process you need to follow to come up with the answer to the question, "What is a good price?".

The "Five Step Plan" is a proven method for selling crops in a profitable manner. The problem is that a funny thing happens on the way to the bank.

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**Step One - Determine how many bushels you have to sell.** No problem here, the average farmer probably knows well over a year in advance how much of each crop he intends to plant.

**Step Two - Determine your cost of production.** This is usually no problem either. There are many resources, including the local elevator, that are willing to help you determine the cost of raising a crop.

**Step Three - Determine a profit goal per acre.** This is sometimes a soul-searching process, but not an impossible one. Many producers have a profit goal in mind already, and only need to look at history to determine whether or not it is a reasonable one.

**Step Four - Calculate your Target Price.** By taking the cost per acre and adding the profit you need per acre, then dividing by the average yield. ...you get the price at which you need to sell. Your target, your ticket to marketing success!

**Step Five – ENTER THE TARGETS!** You've done all of this work, and now you have the solution. Selling at a profit consistently, year after year, is a sure way to improve

your marketing results. A simple little thing is all that stands in the way; putting in a firm offer to sell at your target price.

This is where the program hits a snag. You know the number, but taking that last step is tough. Emotionally, many have difficulty in taking that last step, turning plans into action, because they haven't truly accepted the three statements that we made earlier.

The ONLY way to really be ready for the next rally is to do your homework. Take your time and do it right, so that YOU believe in the numbers. Then, finish the job! Enter the targets and accept the benefits.

This is the key to getting yourself really ready. Ready to take advantage of the opportunity that the market will give you, more often than not, to sell at profitable levels.

Change your attitude, transform yourself and your marketing process. That is the only way to REALLY improve your marketing.

“Procrastination is like a credit card: it's a lot of fun until you get the bill.”  
*Christopher Parker*

## FARM MARKETING 5 STEP PLAN

**STEP 1** Project your acres and average yields.

**STEP 2** Figure your cost per acre.

**STEP 3** What is my profit per acre goal?

**STEP 4** Figure your target price:  $(\text{cost} + \text{profit goal})/\text{yield}$

**STEP 5** Take Action!

# What If?

Obviously, this approach to marketing is skewed toward selling ahead of harvest. We think this approach works well because:

- \* It means you are selling because the price is profitable, not because you need cash flow. In other words, you get the price you want, not the price you're forced to take.
- \* It eliminates extra costs that go hand in hand with storing and selling after harvest.
- \* It provides more consistent, stable results.

There are certain risks involved with forward contracting. The one many think of is, "what if the price goes up?" This concern is not really a valid reason to avoid forward contracting. If it was, you could never sell at all.

"What if the price goes up and I can't deliver?" This is a very valid concern, as anyone who has ever experienced this can attest. There are some steps you can take to counteract this, though.

1. **Look at how many bushels you are selling.** If you are in the "trying it out" stage of forward contracting, you probably are only entering Target Contracts on a percentage of your crop. If you are planning to sell 25% or less of the bushels ahead, you probably don't need to do anything.
2. **If you are selling a larger percentage ahead, you can protect yourself against non-delivery penalties by adding some Rally Protection to your contract.** Rally protection allows you to cancel a forward contract on undeliverable bushels even if the price is higher than where you contracted.

You can buy Rally Protection on as many of your forward contracted bushels as you like. You can even add it to your cost per acre as part of the 5-Step Plan. For example: You are going to sell 20,000 bushels ahead of harvest. You want to buy Rally Protection on 50% of those bushels. If the cost is 20¢ per bushel, and your average yield is 150 bpa, simply divide 10¢ (since you are only buying coverage on half the bushels) over 150 bushels and you will have a cost of \$15 per acre to add to your cost of production. *Note: this may require you to lower your profit goal somewhat.*

## Take The Challenge

Okay, here's where it all starts. We've issued you a challenge to do something that we know will give you the opportunity to improve your marketing results if you've been waiting until after harvest to sell. Below are target contracts that you can clip out, fill in, and return to us. If you haven't forward contracted before, take the challenge; it will be the first step toward making 2004 the start of better selling.

### TARGET CONTRACT

I, \_\_\_\_\_, offer to sell  
\_\_\_\_\_ bushels of  
\_\_\_\_\_ to \_\_\_\_\_  
at a price of \$ \_\_\_\_\_ per bushel.  
Delivered To: \_\_\_\_\_  
Delivery Period: \_\_\_\_\_  
\_\_\_\_\_  
(Producer) Date \_\_\_\_\_ 20\_\_\_\_  
\_\_\_\_\_  
(Elevator) Date \_\_\_\_\_ 20\_\_\_\_

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(Elevator) Date \_\_\_\_\_ 20\_\_\_\_

# *A True* Coffee Shop Story



I was sitting in a restaurant the other day, talking with three farmers that I know fairly well. These three all have something in common: they all sell in August EVERY year. The reason. . . .they need to make room for the upcoming crop. They also have the habit of bashing Chicago, the “big grain companies”, and last but certainly not least the cheap food policy of the federal government!

I asked what they found so difficult about making selling decisions. They talked about all the farm magazines that offer selling advice, the advisory services that they subscribe to, and of course their daily marketing discussions.

After “much weeping and gnashing of teeth”, Joe finally says that he’s identified the problem. “We spend all of our time collecting all of this information and we can’t make a decision. We have analysis paralysis!”

John added, “I just keep looking for the guy that’s going to tell me what I want to hear and agree with him!”

Jim summed it up best, “You know, if we just would get a decent price, one we could live with. . . . .and take it, be satisfied with it, we’d all probably have a better outlook on life.”