

Farmer's Corner



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Out with the New, In with the Old

The beginning of the New Year presents a good opportunity to reflect on our experiences of the past year, to draw some meaningful conclusions and face the New Year with vigor. If you have difficulty drawing meaningful conclusions as you reflect on your grain marketing experiences of 2008, don't feel as if you missed something. Certainly the events of 2008 will go down in history as being one of the most volatile on record.

The focus of this little farm marketing publication has always been to offer the producer a straight-forward, business-like, understandable and meaningful approach to farm marketing. We avoid trying to predict prices, choosing rather to steer the producer toward carefully analyzing his grain farming business as any other production business would do. This analysis includes determining such things as the cost of production, average production, and breakeven prices. This information then becomes the foundation on which to set profit goals, offering the crop to the market at prices that bring a reasonable rate of return. Although this method may lack glamour and will take no honors for being complex, many crop producers across the country have found this method to be very effective for many years.

A little review...

As everyone knows, about two years ago, commodity prices became very volatile. Selling prices for corn, soybeans and wheat reached levels that gave very good returns, which induced many producers to lock in prices for one, two or three years. As commodity prices continued higher into 2007 and early 2008, input costs increased as well, but at a slower rate and the profitability of production agriculture reached record levels that had never been seen before. The pundits agreed that we had reached a new era and that agriculture had finally come of age. The electronic media even published comments from market prognosticators who stated that low prices were gone for good...a new era in farm marketing had arrived. High profits were simply lying on the table, all one had to do was to grab them. It is difficult to avoid getting caught up in the euphoria and "irrational exuberance" of such circumstances. Some producers were lured into thinking that the old tried and true methods of successful marketing were out of date and that those who promoted such strategies had led them astray.

As prices continued to increase into 2008 to record price levels, producers in general, rightfully frightened by such volatility, stopped selling grain and much of the grain industry stopped buying grain because of the associated financial responsibility. Extremely high prices stretched credit lines at all levels in agriculture and, unfortunately, few bushels were sold at that time. The rest is history.

From mid-summer 2008 until late fall grain prices dropped 50% or more in value. Those who still had 2008 bushels to market found it difficult to pull the trigger when prices were falling so fast. They reasoned that if corn was selling for \$7.00 in July, surely \$4.00 or below was a low price. Consequently, at harvest time, billions of bushels of grain that were not already contracted went into commercial storage and farm bins across the country, waiting for higher prices. In addition, input prices for the 2009 crop decreased more slowly than commodity prices, causing the prospects for profit to look dim. The new era in farm marketing had met an untimely death with hardly a whimper.

Lest we despair, let's consider the facts. We work in a very basic food industry. For a period of time, economic forces completely outside the realm of agriculture had a profound effect upon our businesses. We are now in a period of readjustment where the prices of the commodities that affect both your costs and selling opportunities are seeking some sort of equilibrium that will keep our food industry healthy. People are going to eat. We expect to have seedtime and harvest. We continue to believe that there will be rewards for the producer who carefully manages his costs, wisely uses his marketing resources and proactively seeks to sell his crop production. Let's make the transition back to the tried and true way of farm marketing and move forward.

Have the Rules Changed?

At the risk of being redundant we'll restate a simple formula that has appeared on these pages many times in the past. Revenue - cost of production = profit. This formula has more relevance today than ever before because it has a new twist. It might look something like this: Volatile market prices – volatile costs = variable outcome. As long as commodity prices and input costs remain volatile, it becomes necessary to continually fill in the blanks in this equation to determine where you stand and to take appropriate action when the outcome works for you.

Especially in the current economic environment we need to forget the idea that we must sell for a certain price. A price means nothing unless it is stated in terms of how it compares to the cost to produce. With rapidly fluctuating prices of all commodities and input costs, continually evaluating the relationship between these two factors will be the only way to find stability.

If you need help in putting these numbers together, we are happy to help you. We have several handy tools at the elevator in which to input your numbers and compute the results quickly.

2008 Crop

Old crop bushels have fewer variables than 2009 new crop production because the cost of production and yields are known facts at this point. Your cash costs have been known for many months and now and the yield is also known so you are working with factual information. Also, as of this writing, 2008 costs were somewhat lower than current costs, so reaching an acceptable profit goal can be achieved with a lower market price. Don't forget to add in storage and interest to your costs as you compute target prices. Much can be said for getting the 2008 crop sold as soon as possible. The large number of bushels yet to be sold and moved into the marketing channels could create mini-harvests with logistics challenges. Also, most producers find it easier to focus on marketing the new crop after the old crop marketing is complete.

2009 Crop

Marketing 2009 crop presents more of a challenge. The huge run-up in input costs and a large drop in commodity prices have changed the outlook for profit dramatically. As of this writing, the outcome appears unattractive, but

since prices of all commodities, including those which impact the cost of production, are still very volatile, it becomes imperative to continually assess the situation. In these times, timing is everything. Individual producers' circumstances could vary widely, depending on when you purchase inputs or when you price the crop. The objective should be to manage the price risk on both sides and get them both locked in as soon as possible.

Some folks enjoy crunching numbers to determine where they stand and some do not. If you are in the category that dislikes this exercise, ask about our simple 5 Step Plan that will easily help you allow for constantly changing costs and quickly determine your target price.

Characteristics of Successful Marketers

Several years ago we did a survey of grain elevators around the country on farm marketing. Here are a few of the responses that survey respondents gave when asked to describe the characteristics of their most successful farm marketers.

- ✓ They treat their farming operation as a business.
- ✓ They make decisions based on facts, instead of emotion.
- ✓ They think in terms of profit per acre, not price per bushel.
- ✓ They have some sort of marketing plan.
- ✓ They stay focused on selling at a profit.
- ✓ They are disciplined.
- ✓ They are proactive.
- ✓ They don't try to sell at the top.
- ✓ They pull the trigger when their goals are reached.
- ✓ They have a banker who understands their business.

Characteristics such as these have worked well for successful crop producers for many years. During the last few years, some of these characteristics may have seemed unimportant, with market prices continually on the upswing, but, realistically, nothing has changed. The farm marketer that these characteristics describe was profitable when prices went through the roof and he will make a conscious effort to be profitable by employing the same techniques in the current environment.

We wish you marketing success as you approach the New Year. We look forward to being your farm marketing partner in 2009.

A real decision is measured by the fact that you've taken a new action. If there's no action, you haven't truly decided. Action is the foundational key to all success. ~ Author Unknown



Points to ponder as you enter the New Year. Which of the following strategies presents the greatest risk?

- * Purchase crop inputs and wait to sell the crop
- * Sell the crop and wait to purchase crop inputs
- * Do nothing and wait
- * Purchase inputs, sell the crop at a profit and watch prices go higher

Perhaps it would be a valuable exercise to rate these strategies from greatest risk to least risk and to move forward accordingly.

Year's end is neither an end nor a beginning but a going on, with all the wisdom that experience can instill in us.

~ Hal Borland