

# Farmer's *Corner*



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## The **Power** Of Positive Marketing

The economic impact of Positive Marketing on an Agricultural region or community cannot be overstated. Profit starts on the farm. As goes the farmer, so go other local business. Money that is generated from selling crops at profitable prices is much more important to the community than money that is swapped between farmers and other businesses in forms of services and fees. Every year the market presents opportunities to sell grain ahead of harvest at profitable levels. When farmers utilize positive marketing alternatives they are able to lock in good prices prior to harvest and turn grain into money at harvest which means no fees, less interest cost, and more dollars in their pockets.

Positive, profitable farm marketing involves steering away from costly and less effective marketing practices that add expenses to the producer, often while producing less than desirable results. There are countless services that offer access to market information, but in the long run information is not as important as awareness.

More important than market information is market access. Having the means to capture opportunities in the form of profitable prices is more important than news. Effective marketing focuses on capturing profitable prices while limiting costs.

Positive Marketers are consistent in most of these areas:

- Exposed to Market Opportunity
- Forward Sell most of the crop
- Focus on Multi-Year Selling
- Clear understanding of Non-delivery alternatives
- Avoid fees or delays in getting your money
- Avoid risky or gimmick contracts
- Disciplined approach each and every year

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# Exposure to Market Opportunity

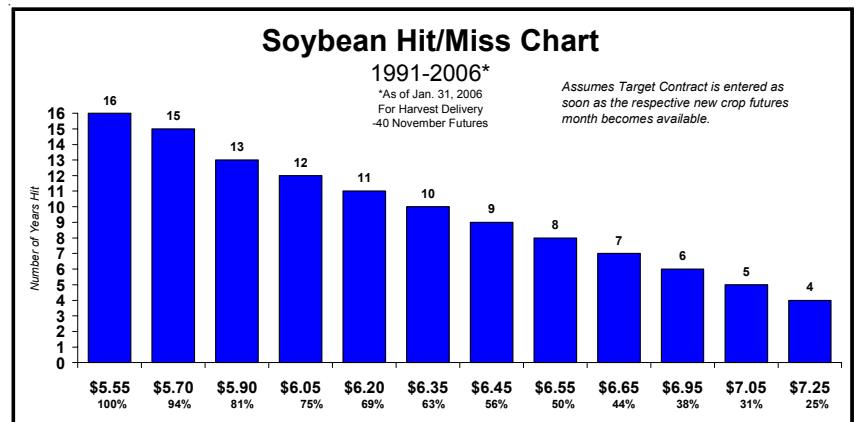
The months before harvest are a time of uncertainty that can move prices to very attractive price levels. In the majority of years, this means that the prices available for a crop before it is harvested are the best prices. Having the opportunity to forward price not only locks in profitable prices but gives producers the ability to turn their grain into money as soon as the bushels are harvested and avoids additional marketing costs. The great intangible of grain marketing is avoiding costly storage, interest and marketing fees.

Target Contracts are the best and least expensive way to expose your operation to profitable opportunities. A Target Contract is an offer made by a producer to sell a set amount of bushels at a specific price if and when the elevator's board price reaches the desired level for the appropriate delivery period. They are generally used before harvest to make an offer to sell grain. The grain can be for any delivery period. Grain can be offered as harvest delivery or if on-farm storage is used it can be offered as an after harvest delivery period.

Target Contracts have two important benefits. First, they provide pricing opportunities before a crop is harvested or even before it is planted. If and when profitable prices become available, the producer is prepared to take advantage of the opportunity. Second, Target contracts enable the producer to maintain a constant market presence. He is not expected

to sit and watch the market. The contract will do the work for him leaving him time to focus on important issues such as yield.

The challenge most producers face when Target Contracting is to know just where to place the target. Realistic expectations for targets are obtained using hit and miss charts.



The idea is to place Targets at realistic levels that are profitable. The market usually finds a profitable level every year. Targets placed at levels to cover cost and provided a reasonable level of return to investment are best. Targets placed too high may result in ineffective marketing and lost opportunity.

# Forward Selling Most of the Crop

Ideally, the farmer should consider forward contracting 100% of anticipated production (based on historical averages). Not to sell all bushels only serves to lower the outcome on the unsold bushels. Selling ahead when prices are profitable and turning grain into money at harvest is the foundation of successful marketing. Although these principles are proven to provide better results over the long term, there are barriers that keep farmers from following through with their marketing objectives. These are the fear of non-production and the desire for higher prices. These concerns must be met with solutions that do not keep producers from contracting most of their average production. Non-production is often the concern for most producers when forward contracting, so it's important to have a clear understanding of non-delivery alternatives. The elevator and the producer need to have an open discussion

of just what alternatives can be used if the contract is not fully executed. Most of the time, the alternatives to non delivery are simple and do not result in excessive penalties.

The fear that the market might go higher and opportunity would be missed is real, but the simple fact is the top of the market is missed 99.9999% of the time by the best of sellers. It's a very good chance that the market will climb higher after your target is executed. Dealing with this perceived misstep can cost a producer dearly as he tells himself he'll never do that again. The best marketers leave 10% or more on the table every year. Is it possible to lock in prices at the top? Even with "stay in the market contracts" that adds cost to your marketing, it's still anybody's guess as to what is the top of the market for that season.

It's best to focus on selling the whole crop at profitable prices.

## Focus on Multi-Year Selling

The more time a Target Contract is exposed to the market, the more likely that it will get executed. So how much time is needed? The more time the better. The opportunity for selling beans and corn exist for up to three years and up to two years for wheat and rice. Producers actually have the ability to sell more than one crop at a time. When markets rally, prices for different delivery slots are sympathetic to each other. If nearby prices rally, often forward delivery slots like next harvest or the harvest after that rallies as well. When situations like this develop, our targets are sitting there waiting for those profitable levels.

Historically, the best prices for a particular crop have occurred and often do occur before the previous crop is harvested.

## Understanding Non-Delivery Alternatives

When forward contracting grain, there is always the chance that weather will affect yields and you will come up short on bushels needed to fulfill your forward contract. Other situations also can arise such as planting intentions or changes in farm size. A producer must plan and sometimes expect situations to work against previous plans. Most of the time, these situations are viewed in a negative light. Actually, sometimes non-delivery is actually a positive.

When a farmer is faced with a shortfall in production and cannot deliver on all or part of his forward contract there are two alternatives for resolution - Straight Cancellation or Roll Forward.

With Straight Cancellation the farmer foregoes delivery and settles any differences in cash. The key to Straight Cancellation is to have protection in place to settle up with the elevator in case the market has moved up from your forward contracted price. Keep in mind a forward contract executed at high prices is likely to be lower at harvest. However, if this is not the case then the elevator must be repaid the difference of the price on settlement day versus your contracted price but only on the portion of bushels that were short. The resolution that is becoming almost common place today is crop insurance. When buying crop insurance,

you should discuss with the agent what repayment is available to the elevator in the event that you forward contract and have a short crop. Second, the use of limited amounts of call options or stay in the market contracts can be of some protection. Both of these alternatives used in combination with Roll Forward seem to provide the best alternatives when the crop is short.

When a Forward Contract is rolled forward, it shifts the delivery obligation from one crop year to the next. Simply put the contract price is adjusted by the spread difference between the current crop year and next year's new crop price. If next year's price is lower than the current price (not contract price but current price), the contract price on the non-delivery bushels is reduced. If next years price is higher than the current price then the contract price can be adjusted upwards. The elevator will charge a minimal fee and reserves the right to make basis adjustments. At times, roll forward is a very attractive method of settling short contracts.

With a clear understanding of all of these alternatives to non-delivery, the producer should be very comfortable with putting Targets in for all intended crop production, thus, locking in profitability on all acres farmed.

## Avoid Fees or Delays in Getting Your Money

Most every year the market presents opportunity to sell grain ahead of harvest at profitable prices allowing producers to avoid further expenses that can hurt even the highest yielding producer's pocket books. Grain put in storage or applied to some other delay pricing alternative has the effect of adding production cost to the grain. Farmers pay storage fees, interest and in many cases end up with a lower price. A farmer that produces grain to store and sell after harvest is not only adding cost to his operation but limiting his exposure to profitable prices. Post-Harvest marketing might achieve a positive outcome but without increased risk and added cost. The three risks in post harvest marketing include fees, interest and price risk. All of these sap profit from farming operations unnecessarily every year.

## **Avoiding Risky or Gimmick Contracts**

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The marketing landscape has a lot of potholes, bumps and detours. However, gimmick contracts are often land mines. There are many marketing contracts designed to lure you into focusing on something other than profit per acre. Contracts that reduce fees, or pay premiums or fix basis later are all gimmicks that increase risk and limit potential. These contracts have certain allure but carry hidden risk. They seem to carry an edge on the market and might even work for a while but then rare conditions come. The bad thing is it's not just a few dollars that end up being lost in these situations, but entire businesses. Even contracts with a disreputable history seem to be recycled, repackaged, and renamed and offered back with sales pressure applied.

## **Give Yourself a Raise**

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With input cost climbing on what seems a daily basis, it might seem hard to imagine giving yourself a raise in this environment. However, most folks could use a raise. The opportunity is out there in the market for the disciplined Target Marketer. Remember, the key to giving yourself a raise is access to the market and the means to capture opportunity using Target Contracts. Focus on consistent and lasting results, not gimmicks.