Grain Marketing

Few topics strike such trepidation and fear into producers and landlords alike as marketing. Looking at the topic from a technical standpoint, such fears seem to be in order. However, when you start to break it down into understandable sections, we will overcome the apprehension that is associated with this topic.

Why is marketing so hard? Beyond the known uncertainties of production, there are other outside influences affecting the price of our grain. Outside markets battle for investment dollars. Not too long ago, expenses were more constant, varying little from year to year. Grain surpluses were the norm and not the exception, so commodity purchasers did not have to bid higher to obtain their needs. Now, grain and it's derivatives are being used as a renewable fuel as well as food. Currency markets skew the relationship between dollars and other methods of exchange. These are but a few reasons marketing can be daunting at best. We are going to categorize steps that anyone can take to de-mystify this process. Many of the comments and recommendations may sound a lot like common sense, but this is not rocket science and sometimes we just need to be reminded to keep ourselves on track.

When you think about it from a personal level, what are we trying to accomplish when we market grain? Different people have different goals. For a producer, it may be as simple as staying in business for another year. For a speculative landowner, it may be to maximize return on his or her investment. For a family farm, it may be not only to return enough to the business to survive but to thrive and pass the farm onto another generation. Whatever the reason, some of these thought processes we will look at will intermingle and become your own no matter what your goal.

First and foremost a good marketing plan begins with a cost of production. This will vary from farm to farm, landlord to tenant, but some commonalities exist. From a purely financial point, you must at least get enough for your crop to pay the expenses to put it in. This is usually referred to as "cost of goods" or variable expenses. These usually consist of seed, fertilizer and chemicals to name a few. Other costs included could be insurance, fuel, soil testing and the like. Landlord expenses are a bit different, they might include real estate taxes where as a tenant's costs include machinery and repairs. We should not forget overhead costs that will have to be paid no matter if we produce a crop or not. Real estate taxes and loan payments fall under this category. We will look at an example of some basic production costs here in the table below.

Crop Budget 2011

Corn

	Yield	160
	Price	$5.49
	Govt	$22.00
	Gross $	$900.40
Expenses		
Seed		$80.00
Chemicals		$26.00
Application		$18.00
Insecticide		$0.00
Fungicide		$0.00
Fertilizer		
	dry	$58.05
	ammonia	$76.80
	28%	$0.00
Drying		$10.00
Insurance		$43.47
	Cash rent	
Total Expenses		$312.32
	Income	$900.40
	Minus Exp	$312.32
	Profit	$588.08
Fall tillage (ammonia)		$0.00
Spring tillage		$0.00
Machinery		$0.00
All other overhead		$0.00
Total overhead		$0.00
Total Costs		$312.32
Net Profit		$588.08

Beans

	Yield	45
	Price	$13.39
	Govt	$22.00
	Gross $	$624.55
Expenses		
Seed		$49.00
Chemicals		$20.00
Application		$15.00
Insecticide		$0.00
Fungicide		$20.00
Fertilizer		
	dry	$73.50
	ammonia	
	28%	
Drying		
Insurance		$31.84
	Cash rent	
Total Expenses		$209.34
	Income	$624.55
	Minus Exp	$209.34
	Profit	$415.21
Fall tillage		$0.00
Spring tillage		$0.00
Machinery		$0.00
All other overhead		$0.00
Total overhead		$0.00
Total Costs		$209.34
Net Profit		$415.21

For simplicity sake we are going to assume that these numbers are all conclusive of our costs and goals. We have an income section and expense area used by the spreadsheet that will calculate our margins to give us an idea of what price goals are realistic. If you cannot pay for your expenses to put in the crop, then it is impossible to achieve any other goal. In this simple crop year budget, You can see a healthy profit for both corn and beans with a bias towards corn production for maximum net profit. If all the variables such as production and price fall into place as you have budgeted, these are the returns you should expect. Unfortunately, we all know this is rarely the case. Production ebbs and flow with the vagaries of weather. Market prices fluctuate on a second to second basis being affected from everything under the sun and always the "unknown factors" that no one can plan for. What is a person to do? Should we throw our collective hands in the air, proclaim it too hard and bury our head in the sand? No. What do we know? We know our cost of production. Whether we have purchased or just called the local supplier, we know within reason, of what it is going to cost us to produce an acre of corn or an acre of soybeans. What do we do with that data? Well, let's take the per acre cost of producing both crops and multiply by the acres we are going to produce. For our example here, let's say that we are going to produce 100 acres of each commodity. Then, Let's take our total expense for each commodity and multiply by 100. For the corn acres, that would be $312.32 X 100 or $31232.00. For the bean acres, it would be $209.34 X 100 or $20934.00. This gives us a concrete area from which to begin our marketing program. We know either through the purchase of our inputs or budgeting that these are our production costs. Cost that HAVE to be paid before we can even entertain the thought of return on our investment of time or any other efforts on our behalf. Looking at the corn example above, if we take our total cost of production of corn of 31232 and divide by our price projection of $5.49/bu you can see that if we want to cover our costs we will have to sell 5688 bu of our total production of 16000 bu to achieve that. As you can also see from the above table, there are a lot of areas that I have left blank. We can discuss these expenses and the impact on your business at a later date.

Why sell now? You might think, "The prices are up, times are good for grain farmers, and I really don't think prices are going lower." Well, if you have already incurred the cost such as fall application of fertilizers, you have already committed your budget to those expenses. If we have another repeat of the 2009 crop year where shortly after fertilizer costs were incurred that the market took a precipitous drop, you might find that you don't have enough grain left to accomplish your goals. Expenses today have never been higher in respect to a portion of gross revenues. When my dad was farming, you didn't worry too much about marketing because prices didn't vary much and it didn't take 320/acre to put in a crop. Bigger numbers mean bigger risk. Remember this: Whenever you incur costs, you increase risk. If you commit to buying and applying fertilizer, not only are you committed to production, but maybe production of a certain crop.

Cash flow is another reason to market. At some point, you can either pay for your expenses with cash, or borrow the money to pay for them. Bills have to be paid, living expense go on, as do debt obligations. One method to incorporate cash flow into your marketing plan is to just sit down and write when you usually pay for inputs, personal bills and loans. Some borrow the money from a bank or supplier until the crop is sold, others pay cash. There are as many ways as there are individuals. No matter what method use choose, just make a point not to forget cash flow when marketing your grain. None of these measures are a cure all or all inclusive but are designed to put you in control of your own marketing and not have marketing control you. There is an inner peace that you will achieve when you hone your skills as a marketer. You will find that you know your own business better, you will find you respond to outside market influences in a more thoughtful way because you will have anticipated change. You might not know every answer, but you will know and can calculate the effects of change upon your own business. With knowledge comes power. The journey of a thousand miles begins with the first step.

These steps as outlined above are not all-inclusive or set in stone. I just would like to get the marketing discussion rolling and outlining the steps in figuring out a cost of production and discussing some rudimentary thought processes seemed to be a good step. Please respond to me on your requests, changes in this newsletter format, topics to be addressed or other content. Your feedback is vital to our growth.

Greg Rebman