

Farmer's Corner



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Number 3

FINISH IN THE TOP

As Americans we've always been taught to be winners . . . to strive for the best . . . to keep on keeping on . . . ultimately to reach the pinnacle of success. Sadly, statistics show that two-thirds of the farmers in this country sell grain in the lower third of the market. What, you may ask, is the cause of this phenomenon?

To appreciate the challenge, maybe it would become clearer if we understood more about those who market their crops consistently in the top third year after year compared to those who sell in the lower third. First, look at what the trading of grain is all about. Farmers produce a commodity that is used for consumption in a number of ways. Grain is used for feed, food, drink and as fuel. The producer is seeking to sell at the highest price and the user wants to buy as cheaply as possible. This seems to be an impossible thing to accomplish, but it will work due to the market created by the Chicago Board of Trade. This market trades grains on paper for up to three years in advance of their production and allows both the producer and user to choose a time they would like to sell or buy.

From the producer standpoint, it is hard to sell something that has not been produced, but it is often the most profitable way to market. Once produced, crops accrue storage and interest cost and can lose value due to spoilage. Even though prices for grain can increase after harvest, most times the increased prices fail to cover the cost of holding it. Some years prices go down after harvest. Despite statistics that show holding grain after harvest to secure a better price is not a long term successful strategy, many still market it in this fashion. There are a few producers, however, who have

discovered a long term marketing strategy that has been very successful. These producers use a simple philosophy of selling ahead at a profit. They sell a high percentage of the expected production at levels determined to be profitable by their own calculations. They use Target Contracts to place orders with local buyers months or sometimes years ahead of harvest. It is fact that producers who sell ahead consistently average higher prices than those who store grain and wait for prices to increase; a conservative estimate based on one country elevator's study puts the number at 25¢ a bushel.

What is the secret these producers use to know when to sell? Do they have access to special private information? Do they hire advisors who have inside information? Are they just lucky? The answer to all of these questions is NO! They are winners simply because they are disciplined, they plan, they put in target orders at profitable levels, and they don't pay attention to all of the market "noise" around them.

What can you do to join this elite group? Just come by our office and work with us on getting profitable targets placed for your 2006 production and for 2007 and 2008. It is our goal to help you raise your average selling price. You will enjoy the long term results as you add profits to your bottom line for this year and for years to come.

IN THIS ISSUE:

- Finish In The Top
- Something For Nothing
- Profit Starts On The Farm
- The Question With No Answer
- Who Controls Your Marketing?
- Coffee Shop

SOMETHING FOR NOTHING

Someone once said, “If someone offers you something for nothing, take as little as possible”. As humans we are all taken in at one time or another by someone offering a deal that is too good to be true. We have to remind ourselves that these deals just don’t pan out. Every year new grain contracts become available tempting producers with special deals, extra money, goods and services and other tempting rewards. Generally, they fall under the “something for nothing” category. We are asked to match these contracts or come up with something similar. When offering contracts we have two questions we ask. Is it good for the producer? Is it good for our company? If we can’t answer yes to both questions, we don’t write that type of contract. We ask you to examine these contracts closely before using them. Just ask yourself the question, “What am I really getting and what am I giving up?” Don’t get into something you might regret later.

PROFIT STARTS ON THE FARM

We believe that for everyone in our industry, profit starts on the farm. We want you, our customer, to be successful. That’s why we are constantly talking to you about improving your marketing skills. We want to be serving you this coming harvest and for many harvests to come. We are dedicated to educating ourselves, our employees and you about the best way to market grain profitably. It is your job to grow and sell grain at a profit. It is our job to help you market profitably, and then handle the grain that you grow profitably. Thankfully, we have a market that allows us to do this without taking money from your profits. When you place grain into storage or delayed price, you pay us a fee and this does add to your expenses. Look at your history of sales in past years. How many times have you covered these extra expenses and still made a sale better than what you could have done by selling with a forward contract at a profitable price?

THE QUESTION WITH NO ANSWER

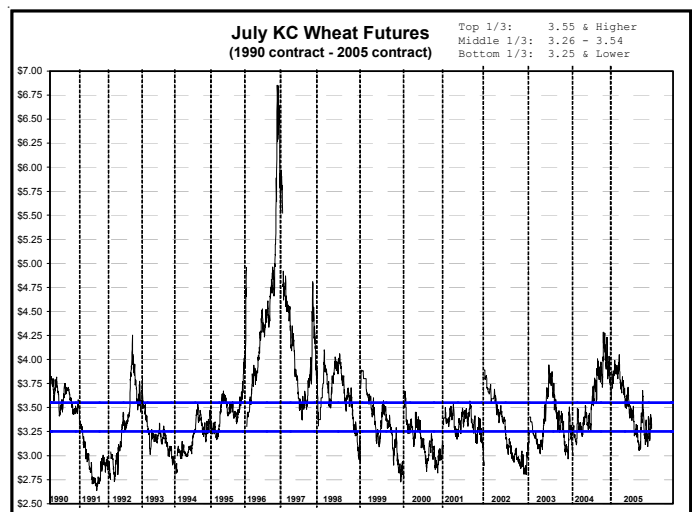
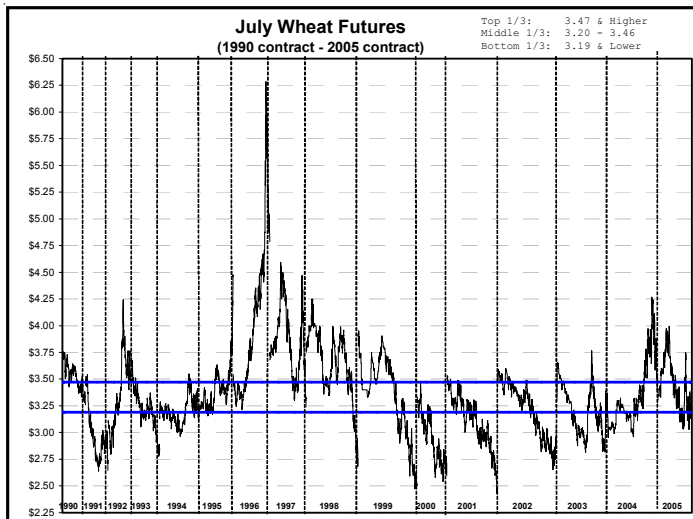
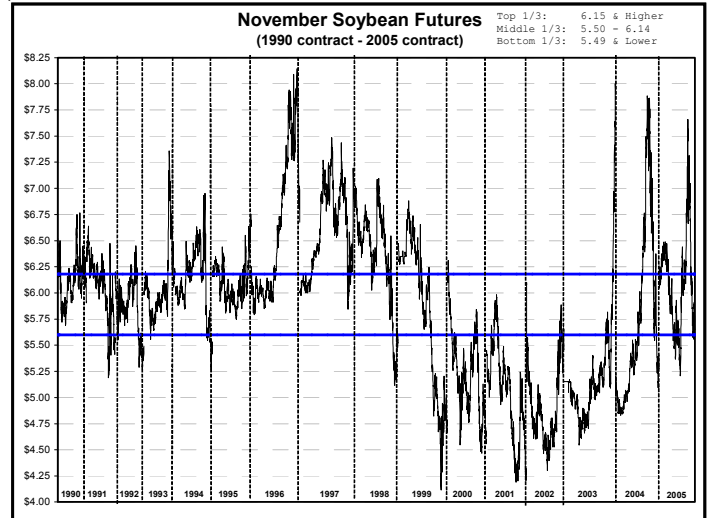
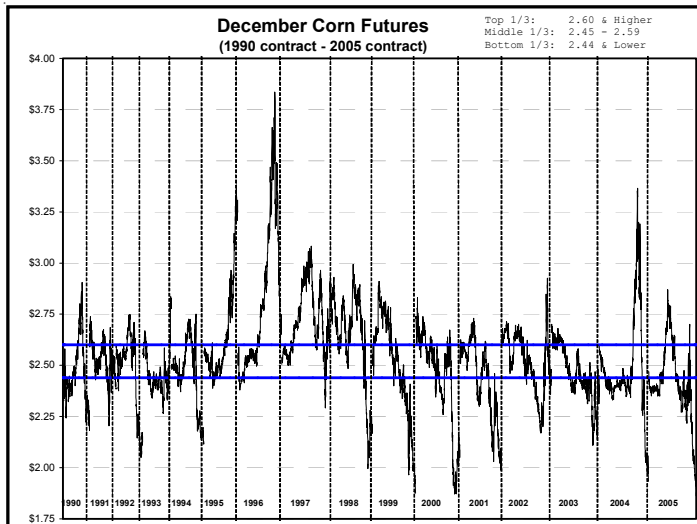
The number one question asked us by grain producers is “what do you think the price of grain is going to do?” We really can’t help you with this question because we have no idea and we don’t believe there is anyone else out there with the answer. We can, however, help you determine what you need to know to make a good decision about what price is profitable for you. Once you determine your profitable price we can also help you get your grain sold for that price using a target contract.

History reveals that long term producer marketing success is achieved by those willing to use targets to sell at profitable prices. Those producers still looking for that elusive answer about the grain market direction, and avoiding marketing decisions until there is a need for cash flow, consistently average prices in the lower third of the price range.

WHO CONTROLS YOUR MARKETING?

A marketing poll asking farmers why they sell grain revealed that most do it because they need money. If this is the case, then when does the need for money happen to coincide with a profitable price? Unfortunately, almost never. It also indicates that someone else such as a banker, equipment dealer, or fertilizer supplier is in charge of merchandising your grain.

A disciplined seller should never let money needs control crop sales. In case of farm stored grain, forward sales can be made at profitable prices for times that money is needed or at times convenient to move the grain. Give us a target or targets for bushels you need to sell and for the times you need the money. Do it early. It gives you a better chance of reaching your goals. Below you will find graphic history that will prove that you have ample opportunity to sell in the top one-third of the market. History has shown that two-thirds of farmers sell in the lower one-third of the market range. Take control of your marketing. Let us help you sell more bushels in the top third.



Success is Simple



“Success is simple. Do what’s right, the right way, at the right time.”

Arnold H. Glasow

It is hard to do the right thing when all the noise around you is telling you that you are wrong, or that it is not the right way or the right time. In other words, too much information makes your job of making a good decision difficult. Lately there has been a lot of noise flying around about ethanol, supply/demand, planting progress, investment funds and other topics. Listening to all of this can get in your way when you are trying to make decisions about selling your grain, especially the grain you haven’t produced yet. **Good decisions are made when you consider the facts about your operation and act on them**, not when you hear noise and act on it. You must separate the noise from the facts and act accordingly.