

Farmer's Corner



DEERFIELD FARMS SERVICE, INC.

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Getting Back on Track

We live in a society where the only thing constant is change. The agricultural community is no exception, and the last couple years has certainly seen its fair share of opportunities and challenges. Just as instability in our economy has had a somewhat paralyzing effect on American businesses and consumers, volatility in the grain market has produced similar results in production agriculture. Extreme highs in the market last year followed by a quick retreat, coupled with skyrocketing input costs have caused many producers to freeze in their tracks when it comes to executing a marketing plan.

As a result of this, some grain companies have returned to offering unconventional marketing methods to entice the producer back into action. These alternatives are packaged in a variety of different ways, but underneath the wrapper are usually very similar. They offer the producer premiums for grain sold, reduced costs for Minimum Price Contracts, “free” grain bins and many other benefits *in exchange for assuming some kind of risk*. In addition to this, undisclosed fees are typically collected from the producer making them quite lucrative to the company selling them when sold on a large scale.

While we also are very interested in inspiring our customers back to action, these types of contracts do not meet the criteria for what we are willing to offer our producers. Any marketing alternative that we offer our customers must meet two qualifications; 1) It must be in the best interest of our customer, and 2) It must be in the best interest of the elevator. We believe contracts like those described above put undue risk on the producer and will lead to poor elevator/farmer relations eventually. It is our goal to offer positive marketing alternatives that are easily understood and proven year after year to bring profit to our customers and our community.

What's New?

There has been an increase in demand for our commodities, and many end users have located right in our neighborhoods, drastically changing the dynamics of local markets. Outside influence in the commodity futures markets; many non-agricultural investors have begun using commodity futures as investment tools, driving up the demand for futures contracts and greatly increasing volatility in grain markets. With grain prices rising to and sustaining higher levels, input costs and land values have quickly followed suit. All of this rapid change to a typically very stable segment of the American economy begs the question: Have the rules for marketing changed? Does maintaining profitability in this new environment require a new approach?

Back to the Basics

The answer to these questions lies in a very simple business principal. Whether in times of stability or volatility, whether you produce grain crops on a farm or widgets in a factory, this fact remains:

$$\text{Selling Price minus Cost of Production} = \text{Profit.}$$

This is no new breakthrough, and nothing you don't already know. The issue at hand is one of focus. We have all, to some degree, been distracted by the changes in the ag economy. We must regain our focus on what it really is that makes us successful, relieves anxiety and makes this job of marketing fun again!

Let's look at the key steps for getting back on track.

Regain Clarity of Focus

The first step is to identify which pieces of information are useful in your marketing plan, and which pieces are not. This is often the most challenging part of the process. To make this determination, you should ask yourself: Is this info based on facts that I know or that are knowable, or is it based on my own or somebody else's opinion and emotion? Information about production costs, average yields etc., are examples of useful info, stuff that you can know. An opinion about the direction or timing of price movement, whether it's yours or somebody else's, is not something that you can use to make an informed business decision. You must accept the premise that such info is counterproductive to a successful marketing plan.

**Practical exercise: Make a list of things that are useful to your marketing plan.
Make another list of things that are counterproductive.**

Maintain Long-Term Perspective

When prices are volatile, the possibility of selling at a higher than average price and gaining a huge return on your investment in one year can be pretty enticing. However, it is important to remember that farming in most cases is a lifetime endeavor. Wealth in farming, as in most businesses, is built by consistently year after year bringing a respectable return on your investment and hard work. To borrow an analogy from baseball, don't put yourself behind by swinging for the fence, you might strike out!

Practical exercise: Do some homework, determine how much profit per year would bring a good return on your investment.

Set Meaningful Benchmarks

Without clearly defined goals, keeping the motivation to stay on course can be difficult. Benchmarks should be set for each individual year, as well as for long-term goals. When setting these goals it is important to maintain clarity of focus and a long-term perspective. Goals that include a specific price based on a hunch or advice from another source are not meaningful. Likewise, when setting a profit goal, "as much as I can get" is not an achievable goal. Determine what would be a good and reasonable return on your investment, and make that your aim. Be committed to reaching this goal year after year. Motivate yourself by determining the long-term results of doing this. Do the math. If I reach this profit objective each year for the next five years, where will I be? How about the next 10 or 20 years?

Practical exercise: Write down some specific goals you would like to achieve over your farming career.

Have a Plan

Until this point in this process we have been attempting to refocus on what's really important and get enthused about moving forward to create successful farms and communities. Hopefully we have achieved this and can move to the next step, where the rubber meets the road. Once you've made the commitment to move forward, this is where to start. The goals that you've set are not just going to fall into your lap. You need to lay out a specific plan to reach them. Don't be overwhelmed by this, remember that the info you will need to put this plan together is stuff you already know, or you will be able to obtain easily. To lay the foundation for this plan let's revisit the simple business principal that we discussed earlier in this article. **Selling Price - Cost of Production = Profit**. The objective of this plan is to identify each part of this equation in detail and plot the course to make it happen. The components of a successful market plan are:

- 1) Your expected yield. We recommend that you use a five or a ten year average yield for this.
- 2) Your cost of production per acre. This will be all cost associated with producing the crop, fertilizer, seed, chemical, land cost, etc., divided by your total acres planted.
- 3) Your profit goal per acre. This can be determined by dividing your overall profit goal for the year by the total acres planted.
- 4) Calculate a target price. Based on the information in the first three steps, calculate what price per bushel would be required to achieve you goals.

Once this information is accumulated, you've got what you need to get started toward the goal.

Practical exercise: Make a plan! Please contact us if you need help putting it together. We will be happy to assist you in this exercise.

Put Your Plan into Action!

Once your plan is complete and you've determined what price per bushel is necessary to attain your profit goal, it's time to get off the sidelines and into the game! The best way to do this is by entering a Target Contract with us. A Target Contract is a firm offer by you, the producer to sell the elevator a specific number of bushels of grain when the price at which you are willing to sell becomes available. While this seems like a very simple tool, it is a crucial part of a successful marketing plan. Due to various factors like having a day job and requiring sleep, it is not likely that you will be able to observe the market every second of every trading session, day and night. Target Contracts, on the other hand do exactly that! As soon as you enter a Target Contract with us, we expose your offer to the market where it "works" for you both day and night and will be automatically sold when your desired price becomes available. At times, this can happen very quickly, where your price is only available for a matter of moments, and then prices retreat below your goal making it impossible for you to simply watch it on your own and react quickly enough without a Target Contract in place. Many times, the best prices are available in the night session, at a time you're not able to watch the market. Target Contracts lack emotion. They are not tempted to move the price to a higher level as the market nears them, as we often are. Executing a successful marketing plan requires lots of discipline, and Target Contracts are a great tool for helping you press on toward the goal.

Practical exercise: Call or stop in to see us about how to get a Target Contract working for you!

Having the “Profit Talk”



While the majority of marketing support for the farmer today revolves around market news and commentary, it is our goal to have a more meaningful relationship with you, our customer. Our philosophy begins with the principal that, stronger farms = stronger communities and we want to partner with you in this endeavor.

Since being profitable is the key to this strength, we believe that it should be the main topic of our conversations and the overall focus of our correspondence with you. With so many sources of market information and so many opportunities for producers to be involved in conversations about price, our aim is to engage our customers in the “profit talk”.

We thank you for the opportunity to be your partner in this and look forward to helping you reach your goals in the years to come!

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