

Farmer's Corner



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Number 5



MAKING THE MOST OF YOUR MOST PRECIOUS RESOURCE

We have been blessed with many resources, but maybe the most precious (and definitely limited) one is the one we are likely to be the most wasteful with – time. The only thing we can know for sure about it is that each of us has an unknown, but definitely limited, quantity of it. Asked to give an account of it, there are few who would not quickly realize that we have spent more of it than we would like to think on pursuits of questionable value.

Is there grain marketing advice to be found in this line of thinking? Yes, and it is powerful. Hours, days, and years of people's lives are spent asking grain marketing questions for which there is no clear answer (at least not ahead of time), and about which no action can be taken.

Here are a few examples:

- Why was the market up/down today?
- What is happening in (name of foreign country) that will affect prices?
- What are the funds doing?
- How will the value of the dollar vs. foreign currencies affect grain prices?
- How much of the current open interest in the futures market is speculative vs. commercial?
- How much will the expansion or building of a local grain user add to my price?

To be sure, many of these questions are interesting, and in some cases about important things, but the fact remains that they do not, cannot, lead to action, and in fact often lead to a kind of decision-making paralysis.

Making a living in the grain markets, where multiple factors can change the value of your product from day to day, or even from hour to hour, has the potential to be one of the most difficult jobs ever. Making it even more difficult is the trap of spending a lot of time talking and thinking about things that are not actionable; they're interesting, but when the conversation is over there's nothing to do.

This publication has always encouraged a simple, but very effective long term marketing approach. When you identify the opportunity to make money and/or raise your average selling price, take action to lock it in. It is not the only way to market, but it has proven itself to be a very effective one over the long term, and it will go a long way toward conserving your most precious, non-renewable resource.

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Where Did All The Money Go?

You don't have to have an MBA to know that higher commodity prices don't automatically equal greater profits. In fact, with the quickly rising cost of inputs and land, it's entirely possible that profits could be harder to come by than they were when prices were lower, or at least that in the long run, the percentage return on a farming operation is likely to be the same as it was at lower prices.

What does all this mean? Just that the keys to profitable marketing haven't changed. At any price level, consistent success means knowing where your profit starts, and having a clear plan to lock in profitable prices as they become available.

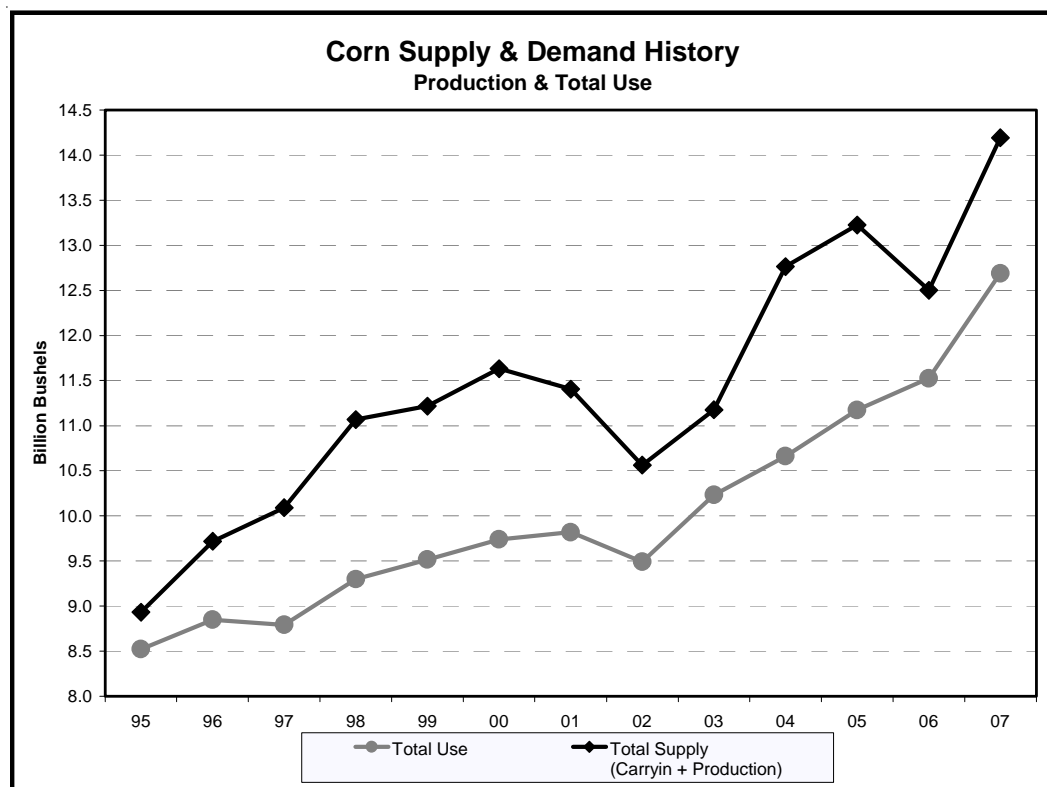
Will high prices last? Ask around, and you'll hear plenty of arguments on both sides. We all know the answer when we're asking it about the past, but no one has come up with a foolproof plan for predicting future prices yet (at least, not anyone that's talking about it). Meanwhile, there are three important questions that anyone can answer with a little time and a calculator:

- What price will cover my costs and return a reasonable profit?
- Is the current price (for any delivery period) above or below that price?
- What action have I taken to lock in a profitable price?

Going forward, it's a safe bet that we can expect the marketing environment to be one of continuous change. Your most important marketing job, as it has always been, is to clear away the noise that surrounds the grain market and focus on consistently selling a profitable price.

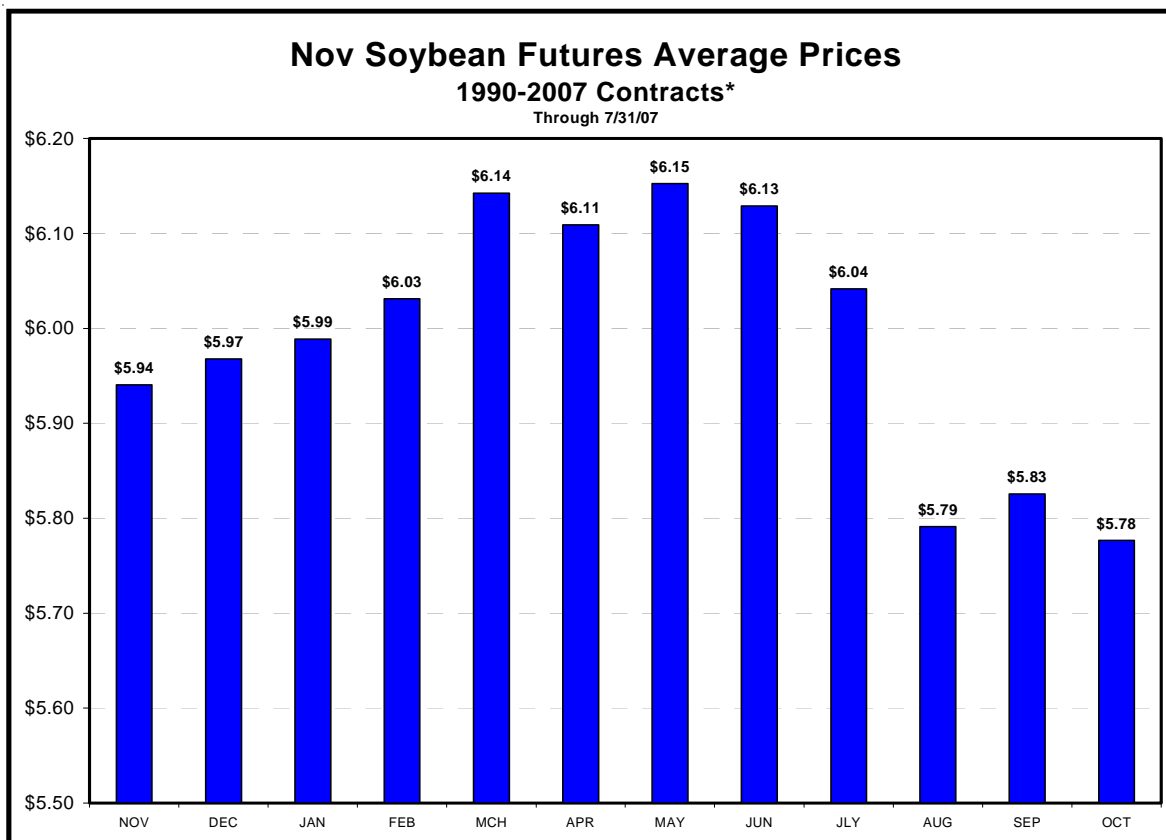
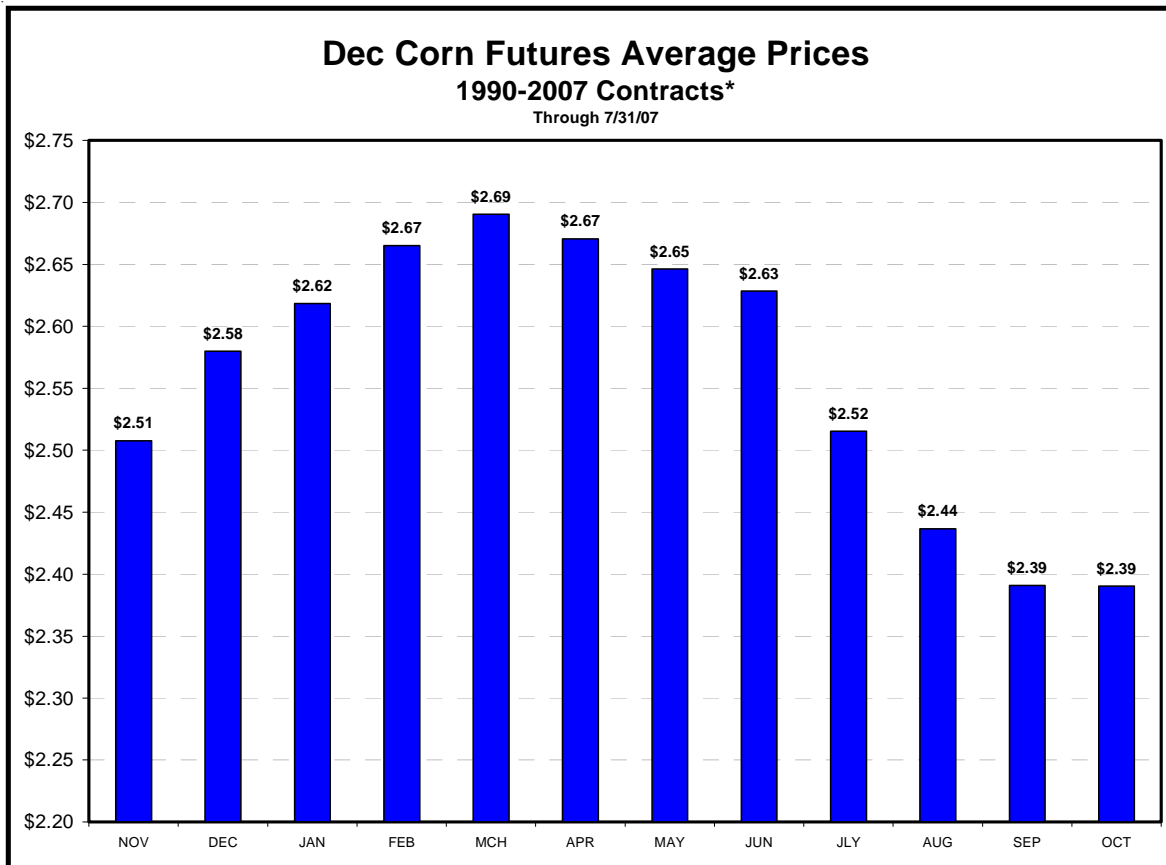
Outgrowing Demand

So far, the American farmer has been ready, willing, and able to keep pace with the ever-increasing demand for corn. This chart shows total corn usage for each crop year and total corn supplied to the market (production plus carryover from the previous crop).



When is the Best Time to Be in the Market?

These charts show the average price per month for corn and soybeans over the last 17 years or so. They can't tell us anything about the future, or any one year, but they do point out some clear patterns of higher prices during certain times of the year.



Avoiding Risky or Gimmick Contracts

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

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.