Farmer's Corner

"Helping The Producer Sell Better"

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Preserving Farm Capital in a Season of Disappointing Prices

We all know what's happening this year: across much of the country, we are staring down the barrel of a bumper crop of both corn and soybeans. Growing conditions have been great in most places and definitely better than it's been in the last few years. As a result, we are also seeing lower prices than we've seen in a few years.

The questions are: how do we manage this challenge and what will our definition of success be in a year where it looks like profitability will be harder to come by than we've seen in the past few years?

In years like this, it is more important than ever to have a clear plan based on reasonable returns to capital and to be disciplined about executing that plan. We are coming off several years in a row of record profitability on the farm and we must passionately protect and preserve the capital that has been built. So, let's spend some time discussing a few common marketing pitfalls in years like this and how to overcome them.

Marketing Pitfalls to Avoid:

1. **Viewing lower prices as a bigger deal than they really are.**

   A common line of reasoning is "I got $4.75 for my corn last year and new crop prices are $3.30. That's a 35% drop in my total revenues." Prices are definitely an important part of the profitability equation, but they are just one factor in determining farm revenues. Let's discuss that mentality in its full context. First of all, did you sell your entire crop at $4.75? Maybe the average price received for the entire crop was a bit lower when all sales are considered. For our purposes, let's just use the $4.75 figure. Yields in most parts of the country were lower last year than they will be this year. This will help more than you realize when you actually put it down on paper. Let's say that yields last year were around 160 bu/acre and we are expecting 200 bu/acre this year.

   It's still not as good as last year, but instead of a 35% drop in revenue, this shows only about a 13% drop in revenue. Last year was a very profitable year for a lot of producers. While this year may not be as lucrative, there still is profit to be had. In this case, a price of $3.80 would generate the same revenues as the $4.75 price did the year before.

Crop Revenue Comparison Worksheet

Last Year's Yield	175
Last Year's Price	$4.40
Last Year's Revenue	$770.00

This Year's Yield	220
This Year's Price	$3.40
This Year's Revenue	$748.00

Revenue/Acre Difference this year: ($22.00)

Price necessary to generate the same Revenue as Last year: $3.50

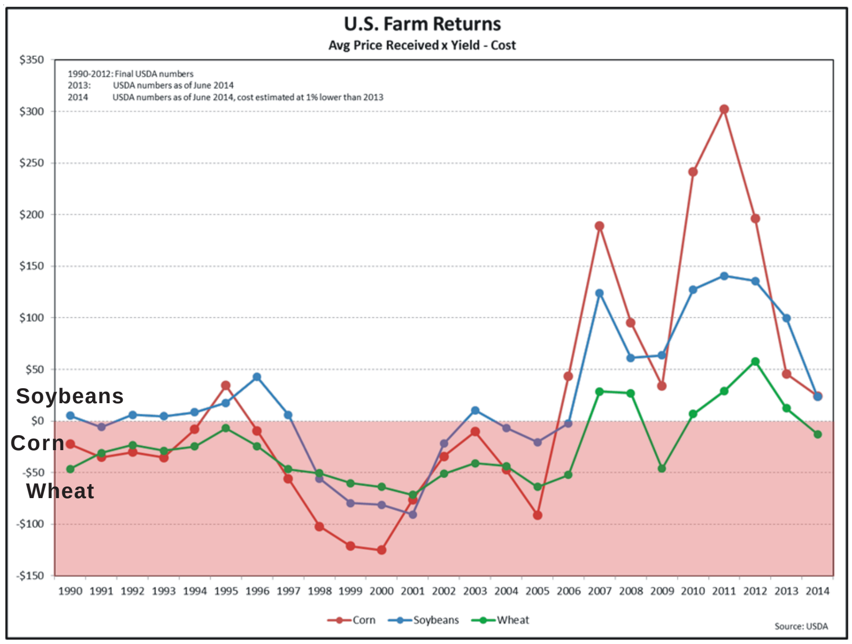
2. **Ignoring the power of averaging up.**

While current prices may not generate the revenues you are looking for, they aren't the only prices you will sell for the entire crop. Hopefully, you have forward contracted some new crop grain at higher price levels from earlier in the year. While a $3.30 new crop price looks bleak, if you average it with an equal amount of bushels of your forward contracts at $5.00, you could be looking at an average of $4.15 on twice the amount of bushels you forward contracted.

Many have taken the good profitability of the last several years and invested them back into their farming operation in the form of more grain storage. While big crops create low prices, they also create value for anyone who has space to hold it. **That value is created by carries in the market, not by waiting around to price your grain!** To capture that value, you must sell your grain now for a forward delivery. For instance, in most markets, there is around a 40¢ premium to sell your grain now for next summer above selling your grain now for harvest delivery. If you have the space to store half of your crop, you can sell half at harvest and forward contract the other half now for delivery next summer and raise your average for your entire crop by 20¢.

3. **Allowing lower prices to paralyze your marketing.**

This can be a very easy pitfall to fall into, but it must be avoided at all costs. Many fall into the trap of thinking that since prices were higher so recently, they must recover to some extent. Others think that prices have to come back because the market has to pay to cover the costs of growing the crop. This is all just wishful thinking taking the place of rational, pragmatic business decision making. Here's a quick look at farm profitability since 1990 per the USDA:



As you can see, although profits have been good over the last several years, that is not the rule. Many years before that, it's taken good marketing that beat the averages and help from government payments in order to be profitable.

In order to wait around and hope for higher prices, you must take on more risk and/or more costs. This is not a year in which you can afford either. The tragedy of this mentality is when producers end up paying storage or price later fees and still end up taking a lower price than they could have received at harvest. You have to make a conscious decision to prohibit your business from falling into this terrible pitfall.

4. **Allowing lower prices to distract you from the future.**

When challenging marketing years like this year occur, it's easy to narrow your focus to one year and disregard the bigger picture. You must look forward for the next crop and start your plan early to sell profitable prices for next year and the years to come. Everyone wishes they had been more proactive about this year now that we've seen what prices have done, but what you can do is avoid making the same mistake next year. Start right now figuring out what prices make you profitable for next year and start working target orders at the elevator right now for next year. The market trades 17 ½ hours a day and the longer your price is working, the better chance you have of getting good, profitable levels locked in. All it takes is one disrupting world event to send things into a temporary flurry and allow you to achieve your profit goals. However, you can only capitalize on those price rallies if you have orders in when they happen, which is sometimes at 2 a.m. You need to be ready to take advantage of the high price the instant it happens.