

Farmer's Corner



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Profit Discipline

The purpose of business is to earn profits. That is, any business should seek to collect more money in revenue than it spends in costs to produce that revenue. Farming is a business and therefore has a goal of profits as its main objective. So, a farming operation must think in terms of what profit is being returned to the business and not about what price is, isn't, has been, hasn't been, will be, or won't be.

Once you are able to shift the focus of your business from prices to profits, you must put the proper disciplines in place to achieve your goals. The first thing to do to establish discipline in a farming operation is to set a reasonable profit goal. All too often, once the focus becomes profit, and someone asks what profit the profit goal is, the answer is, "All that I can get." This answer only says one thing: indecisiveness. The ability to make decisions is a prominent characteristic of most successful individuals. A firm and precise number must be established as your profit goal.

There are a few ways to go about deciding what a reasonable goal is for your operation. One way is to look at your own personal history and see what has been attainable. This doesn't mean finding the one year you made three times more than you made any other year. It means to analyze where your numbers have been and start to get decisive about where you want to go in the future. One thing to keep in mind is that just because you might have had a year with a low profit number doesn't mean that a good profit wasn't available at some point that year.

Once you have a good idea of your personal history, another place to look would be at your local elevator. They will be able to give you a better idea of what profit has been available in your area in past years. Once you are armed with your personal and area history, you can start to form some goals about where you want your profitability to be in the future.

Another way to establish a reasonable profit goal is to think in terms of return on your investment. If you are investing \$500 in costs per acre to grow grain, what is a reasonable return on that investment on a yearly basis? You can think of this in terms of any other investments you have. Would you like to get a 50% return on your stock portfolio? Sure. But is it reasonable to expect to get that every year? Of course not.

Over the long haul, you need to average a reasonable growth rate year in and year out. So, in terms of your \$500 dollar per acre farming investment each year, maybe a return of 15-20% above your costs is where you need to be. Again, this is a personal decision you have to make about your own business. For the sake of this discussion, let's say 20% is where you decide you need to be. For a farm with \$500 in costs per acre, you would need to clear a profit of \$100 to achieve your 20% return on investment goal.

IN THIS ISSUE:

Profit Discipline * Coffee Shop

Once you have established your profit goal at a precise level, the next step is to determine where you stand right now. Determine all of your costs per acre as well as what revenue would be taken in for your crop at your expected yields at the current cash price available. Do this exercise for as many crop years as you are able to sell. If there is profit available in any of these years, you can take it off the table and put it in your pocket today.

If the current profitability levels are not where you have set your goals, the next step is to work backwards and find the price that would make your profit goal a reality. To do this, simply take the total revenue you need to return per acre (costs per acre + your profit goal) and divide by your expected yield per acre. This will give you the cash price per bushel you need to achieve your profit goal.

TARGET PRICE FORMULA

CROP	
+ COST PER ACRE	
+ DESIRED PROFIT PER ACRE	
= TOTAL DOLLARS NEEDED	
/ AVERAGE YIELD	
= TARGET PRICE	

RETURN ON INVESTMENT (Profit per acre / Cost per acre)	
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PROFIT PER ACRE

CROP	
CURRENT CASH PRICE	
X AVERAGE YIELD	
= TOTAL DOLLARS AVAILABLE	
- COST PER ACRE	
= PROFIT PER ACRE	

RETURN ON INVESTMENT (Profit per acre / Cost per acre)	
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TARGET R.O.I. FORMULA

CROP	
+ COST PER ACRE	
+ DESIRED R.O.I.	
= PROFIT/ACRE NEEDED	
/ AVERAGE YIELD	
= TARGET PRICE	

Now that you have your goals and you know what cash price you need to achieve them, it is time to execute. An idea is only as good as its execution. Just because you have a goal, it is completely meaningless unless you are decisive and put the appropriate disciplines in place to achieve your goals when they become available. Discipline is the bridge between goals and accomplishments.

A wise man once said “Half of life is luck; the other half is discipline - and that’s the important half, for without discipline you wouldn’t know what to do with luck.” This is true of grain marketing as well. Everyone who has had anything to do with grain in the last few years is aware that the grain market is volatile these days. The ones who can truly take advantage of this volatility are the select few who can be decisive as well as disciplined. With the prices soaring and plummeting so frequently, a marketing program geared toward profit discipline can really flourish.

The beauty of marketing your grain with profit discipline is that it is very simple to execute. Forward contracting with a straightforward target contract at the level you have decided is a good profit for your farming operation is the tried and true method that has worked year in and

year out. Other more complicated strategies and contracts emerge, go away, then get repackaged or renamed and reappear from time to time. They never stay around very long because they can’t be consistently effective.

However, simple target contracts remain effective through it all. The reason for this is because they are based on good, sound business decisions. Once you have your profit goal and know what price you need to achieve it, all you have to do is enter your target order and let it do the work. It will instill the discipline you need in your marketing program for you and execute your goals as soon as they are available. The market can and will ebb and flow after your target is reached, but that cannot affect your goals or distract from your discipline.

A good profit is a good profit no matter what happens later. Enter your target orders as early as possible to give them ample time to help you achieve your goals. If you haven’t already entered them, today would be your earliest and best opportunity to enter them for this year, next year, and beyond.

Get Disciplined. Get Decisive. Achieve Your Goals.

TARGET CONTRACT

I, _____, offer to sell
 _____ bushels of
 _____ to _____
 at a price of \$ _____ per bushel.

Delivered To: _____

Delivery Period: _____

_____ Date _____ 20__
 (Producer)

_____ Date _____ 20__
 (Elevator)

TARGET CONTRACT

I, _____, offer to sell
 _____ bushels of
 _____ to _____
 at a price of \$ _____ per bushel.

Delivered To: _____

Delivery Period: _____

_____ Date _____ 20__
 (Producer)

_____ Date _____ 20__
 (Elevator)



President Calvin Coolidge once said,

“We cannot do everything at once, but we can do something at once.”

When it comes to grain marketing, there are so many strategies, methods, and opinions that you can get completely overwhelmed by it all. This can get you to the point that you just sit back and do nothing and see what happens. While this seems like you are avoiding a decision, you are actually making a decision to have no control over your marketing. There is no way to do all the things that are being preached about grain marketing today. However, you can step out and make the decision now to take control and shape the outcomes in your farm’s profitability. Enter a target order at once and start growing your business today.