

Farmer's Corner



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Number 1

Surviving Prosperity

It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to heaven, we were all doing direct the other way - in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only.

Charles Dickens, *A Tale of Two Cities*
English novelist (1812 - 1870)

The current Agricultural environment has a lot of us thinking like Dickens. Are these really the best of times? Which direction are we going? It seems like everything chartable is "off the chart" or talk of it being "off the chart". Records for volume, yields, moisture, drought, volatility, profit, losses, investment, everything is unprecedented. These are very interesting times we are living in.

A lot of talk in coffee shops across rural America over the last 25 years has been about the price of grain. No doubt people had lots of different ideas about how problems could be solved and the business of farming could prosper if only we had higher grain prices. The thought was that higher prices could put more money on the bottom line by increasing our margin between input cost and gross revenue.

Generally speaking everybody wanted to distance themselves from the government subsidy programs of

the past and move forward into a new age of high prices. That was the dream. That day may have occurred but problems still remain. Has lasting prosperity really come to rural America?

History is the great teacher. The history of farming has always been very cyclical. Prices move higher and for a short time, prosperity comes to the heartland. We move from boom to bust as weather and economic conditions change. Where will the problems come from this time? Not a very good attitude but reality. Are things different today than in the past? Absolutely things are different. Margins can shrink a lot quicker than in the past. Another difference is that farmers have much greater risk. Modern farming today is effected by a lot more than weather and foreign markets not the least include technology fees, interest rate fluctuations, natural gas price (effecting fertilizer prices), urban sprawl effecting rural farmland prices with 1031 exchange tax laws, exploding ethanol industry consuming

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20% or more of our corn crop, unregulated hedge funds, transportation cost – shortages and bottle necks, labor shortages or quality labor, water rights and usage issues, costly environmental regulations from chemicals to wetlands, and increasing state and local taxes on inputs, land and labor, not to mention the competition for inputs and resources from other sectors of a booming economy.

Two very staggering thoughts come to mind. First, the cost to get a crop in the ground has climbed to new highs and is not likely to come down quickly. 2007 is going to be the most expensive crop ever put in the ground. Second, the floor is a very long way away. Least we forget, loan rates have not changed and LDPs are a long ways from being in place when the year 2007 starts. If markets retreat, the pain is going to be real. Good marketing is a must.

There is no shortage of information on grain marketing that tries to help farmers gain the upper hand when it comes to selling their crop. The very fact that so much information is readily available suggests that a lack of know how may not be the problem. It suggests that something else might be needed, courage and conviction. A lot of courage is needed to sell into a market that has trended up for the last 6 months. Courage and conviction is needed to sell in a market that is 50 cents off its highs. It takes courage to sell out more than a year in advance. And it takes courage to sell enough of the crop that it makes a substantial difference on the bottom line. It really takes courage to stand against the trends of the day where farmers are offered contracts that aren't in their best interest or so complicated neither party understands the fine print.

There is nothing wrong with trying to sell at the top of the market. Gordon Gekko has coined the phrase "Greed is good". And, in a capitalist society maybe that's true to some degree. But, the trend in society is to want to risk the windfalls and the hard earned excesses on that glorious day of bliss. The prudent style is to make a profit each and every year and make enough to grow your business. Businesses, be it farming or anything else, if not growing are dying.

Get Involved in Courageous Marketing

- b Forget about Selling at the Top of the Market – the last 10 percent or so of the market needs to be forgotten. Look at that money not as "leaving money on the table" but as the expense of locking in a profit.
- b Sell more than a year in advance if profitable – when the good times get here let history be your teacher and lock down some excess for the lean years.
- b Sell enough to make a difference – selling small amounts at profitable prices might give folks bragging rights but it takes courage to sell enough to effect your destiny.
- b Know what you'll receive – don't let the fine print of contracts you don't understand surprise you at settlement. Simple and straight forward contracts at a price work better than average basis fix later straddle premium whammy contracts.

Surviving Prosperity

Don't let demand for your crop lull you into thinking you're going to make a fortune. We read every day about the effects of ethanol using up the corn crop, world wide wheat shortages and limited acres to grow the soybeans needed. All this might be true but how does it affect your operation and your situation.

Staying focused is tough in the modern world. It's like the All American running back that starts to read his own press clippings touting his invincibility. Until, the key offensive linemen graduates and then he can't get out of his own backfield.

The truth is that things are never quite as good as they seem and never quite as bad. The noise from the market is exciting. Individual challenges are quite different. Work hard, know your risks and market diligently.

Remember, there is nothing wrong with asking for help!

Team Work

People don't like to think about the future because it represents a giant unknown. It's easier to live in denial than to make a commitment to gathering the information, creating a plan, and then making the necessary adjustments today to make the plan work into the future. If it's true that two heads are usually better than one (and it is), then the best place to start developing that marketing plan for the future is with the local elevator. Successful producers team up with their local elevators and make long term commitments to shape the future rather than letting the future shape them.

What does this team work with the local elevator offer that another market might not? Besides great service, there is one very huge advantage that the local elevator provides, the Target Contract. Target Contracts have great benefits. First, they provide pricing opportunities before a crop is harvested or even before it is planted. If and when profitable prices become available, the producer is prepared to take advantage of the opportunity. Second, Target Contracts enable the producer to maintain a constant market presence. He is not expected to sit and watch the market. The contract will do the work for him leaving him time to focus on important issues such as yield.

The traits of a good marketing team would be Wisdom, Diligence and Trust. This is the kind of stuff that removes fear from your business and gives us courage to move toward success. Wisdom is the ability to find the answers to tough questions and identify the risk. Diligence is continued action not reaction. And, Trust is the key to making it work.

TARGET CONTRACT

I, _____, offer to sell
_____ bushels of
_____ to _____
at a price of \$ _____ per bushel.
Delivered To: _____
Delivery Period: _____

(Producer) Date _____ 20__

(Elevator) Date _____ 20__

TARGET CONTRACT

I, _____, offer to sell
_____ bushels of
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New Year Resolutions



New Year's has always been a time for looking back to the past, and more importantly, forward to the coming year. It's a time to reflect on the changes we want (or need) to make and resolving to follow through on those changes.

Besides the old stand bys like losing weight, getting fit, and quitting smoking, we might add some new grain marketing resolutions to our list this year. May we suggest in 2007:

- ᵇ Build a Marketing Team with your local elevator
- ᵇ Market grain based on profit per acre not price per bushel
- ᵇ Put together long term marketing plans for 2, 3 or 4 years
- ᵇ Share your plans with your banker

Enjoy the process and have a Happy New Year!!!