

ProfitTalk

Simple perspective on disciplined grain marketing for producers

presented by



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FEELING OVERWHELMED?

7 WAYS TO STREAMLINE YOUR FARM MARKETING FOR THE 2024 CROP

one : change your focus from price to profit

The standard 4-seat Model T of 1909 cost \$850. By the 1920s, the price had fallen to \$290 because of increasing efficiencies of assembly line technique and volume. Henry Ford probably didn't drop his margin; in other words, he was making the same amount of money per car at \$850 and \$290. It's probably safe to say that in 2010, adjusting for inflation, Ford's profit margin is not dramatically different than it was 100 years ago, even though a Ford car costs tens of thousands of dollars now. Even if that isn't the case, the point remains that price is only one factor of many that influence profit. If it is safe to say the profit on a modern-day Ford is close to what it was back in the early days, we can certainly see it takes a lot more dollars to produce the same "margin" (dollars per unit) today.

Farm Marketing is no different. It takes more dollars today to produce the same amount of profit per acre than it did 10 years ago. The challenge is to market it for profit. In reality, the past few years have taught us that not only are prices volatile but inputs are also extremely volatile and high prices don't always equal the highest margin. The price you sell at is only one part of the equation - a much more important part is what kind of profit margin that price represents.

two : commit to planning

The first step in successful marketing is to plan for average. Some people play it safe while others go for the home run. Who plans for average? Profitable growers do. Knowing your Actual Production History is a key element to the planning process. APH is what you should look to market each and every year.

Another key element to planning is figuring production cost. A huge percentage of inputs is seed and fertilizer. Plugging those two factors into a budget with your equipment schedules makes for a reasonable cost assessment. Fuel, labor and other misc. expenses complete the cost calculation and the easy part is done - you have everything you need to compute breakeven cost.

What is left is the hardest part of the planning process. You have to make a few decisions:

1. What is a reasonable profit to expect from my operation?
2. At what price do I want to sell my crop?
3. How much do I sell at one time?
4. When do I start selling?

All of these questions can be answered during the planning process.

three : decide on a reasonable profit

Developing meaningful benchmarks in a business is very important. Typical farming margins differ from state to state, even county to county. There are certainly many standards available to measure profit. The accountant uses ratios like ROI (return on investment), the banker is always focused on cash flow and the IRS has its measurements. The particular method you use to figure profit is not as important as simply having some method. Not establishing a reasonable profit goal means abandoning your marketing plan and giving your future over to the moves in the market. You lose control. Whether it is \$50 an acre or \$150, establishing a reasonable desired profit is a crucial component in successful marketing.

four : sell meaningful amounts

Reasonable profits (total net dollars) are only obtained by selling the entire crop. No business plans on selling a portion of their inventory at a profit and then running a clearance on the rest. They try to match the production to sales to cover cost and desired profit. They may not always get it exactly right, but having inventory in the back that's not for sale is a concept long abandoned in most businesses.

Selling meaningful amounts in spring/summer rally season when profit goals are achieved, followed by more large sales after the crop is made, and then the rest selling at harvest is a tried-and-true method that avoids a ton of risk and excess fees and costs.

five : expose yourself to the market

How much do you think it would cost to pay someone to watch the market for you 17 hours a day? When you start to work your plan for profit, you are going to have to watch the market very closely to make sure that you can obtain your desired margin. You'll need discipline to sell your crop at a profit every year.

Target Contracts will help you watch the market for your desired price for FREE. Free? Yep, they expose your crop to the market place 17 hours a day at no cost to you. These contracts are tools that work to get your crop sold at your desired margin so you don't have to have a clearance sale after harvest. More and more bushels are being sold every year with "targets" by the most successful grain marketers in the country. They know you can't make a profit with a crop that is not for sale.

six : understand crop insurance

A crop insurance policy is a good tool to use with your marketing plan because it protects a portion of your revenue. Producers should always carefully consider how a particular policy will work in conjunction with their marketing plans to insure the best possible outcome each crop year. Crop insurance agents, along with your elevator personnel, can assist you in developing a good marketing plan using targets and crop insurance. Understanding crop insurance is important to the farm today because of the huge risk that production Agriculture takes on each and every season. Commit to understanding crop insurance.

seven : avoid the hecklers

The hecklers are the people that stand behind you and tell you myths that will distract you from your plan. A lot of what is being presented as sound Farm Marketing is really an attempt to get you to buy into a fable. A fable is nothing more than an improbable account of something. There are lots of great fables in the world of Grain Marketing. Remember, a fable usually involves characters which are animals, like bears or bulls. The fable goes that I got so bullish that I just waited until the market climbed to its highest point and sold it all. The problem is that we've read the story. The tortoise beats the hare.



Streamline Your Farm Marketing

For some it's time to hit the reset button. Overhauling what you believe changes the game. Remember these seven simple fundamental tasks that can help you reinvent the bottom line.