

Grain Marketing for Profit, not Pride

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“Have you ever placed a futures bid on your anticipated wheat crop and then hoped that the price would drop afterwards? Just so you would feel right? Even if you still had 75% of your crop left to sell?” Thus Raleigh Curtis, the manager of Mid-Columbia Producers Inc, challenged eastern Washington farmers at recent WSU Extension workshops. Rather than the goal of making a profit, Curtis asserted that most farmers hold emotions (feeling right, proud, or safe) as their primary marketing motive!

Ultimately this lack of a logical strategy means that farmers are price takers rather than grain marketers. However, even professional financiers are not immune to the psychology of fear and risk. This is perhaps a tough reality to accept – but will growers allow pride or denial to stand in the way of their making successful changes in their business strategy and develop a plan to manage risk?

Raleigh Curtis labeled 2007 as a “regret syndrome market” as prices continued to rise well after many farmers had forward-contracted or sold most of their grain, and they felt a loss even if the prices they obtained made them a profit. (Diana’s perspective: a few farmers who had no strategic marketing plan actually made a huge amount of money last year. However, if your only goal is to sell your whole crop at the highest price for the year, the probability of doing so is $1/365$. And should you actually accomplish that goal and decide that’s how you’ll work in the future, the probability of reaching the same goal the next year also is $1/365 \times 1/365 = 1/133,225$. And everyone knows what happened to that neighbor (no, of course I’m not talking about you) who missed the highest price one season and continued to wait... and wait... as the prices kept falling!)

How does one change one’s operating paradigms? Curtis suggested the first step is to examine, recognize, and understand your emotional goals for decision-making and marketing, then listen openly to those who challenge them. Ultimately only you can change your own mindset, and neither can you change anyone else’s outlook.

Curtis said that strategic planning for your farm business requires mental conditioning to enable you to market for profit and have a plan for how you will use that profit to achieve your business goals. He recommended the following for your farm business:

1. Pay yourself a monthly wage;
 - a. Use profits only for business growth or retirement investments,
 - b. If your wage is too high the farm profits will be less, but you should keep the two items -profit and wages – distinct from each other and not use profits to raise your standard of living.
2. Determine and know your cost of production.

3. In accordance with your business goals, determine what return you want above your cost of production investment (e.g. 10%, 30% etc) and develop your marketing strategy to achieve this price.

Raleigh Curtis provided an extremely handy Excel spreadsheet that you may download from the WSU Extension Spokane County website at <http://www.spokane-county.wsu.edu/smallfarms/management.htm>

- a. This **Grain Marketing Return on Investment Calculator** is a great tool for deciding whether a current grain price on any day will meet your marketing goals. The file is marked Read Only, so you will need to save it under a name of your choosing before making any changes. You may change the values in any highlighted cells. Enter in the designated cells;
 - i. Your cost of production per acre,
 - ii. Your anticipated crop yield for a certain field,
 - iii. Your desired return on investment,
 - iv. The current Portland price,
 - v. Your price differentials from the Portland price.
 - b. The worksheet will then calculate the actual return (or loss) on investment for the field and the number of bushels you will need to sell at that price to cover the production costs for the whole field.
4. Keep track of depreciation and use it to your advantage;
 - a. Raleigh pointedly asked each producer to think about what they currently do with “depreciation”. He stressed that you should keep depreciation in the business and add it to operating capital instead of using it for living expenses, personal purchases, or farm equity. The University of Idaho **MachCost Program** (see Appendix) enables you to calculate your equipment costs that include depreciation.
 5. Be a low-cost producer;
 - a. Optimize your inputs to reap the maximum yields based on your best information. Take soil tests and use the information from them. Use fuel conserving farming systems.
 - b. Raleigh Curtis provided surprising information that throughout the farm-to-table chain, the farmer makes more money on a bushel of wheat than does any one step in the process; grain handler, shipper, exporter, miller, baker, cereal-maker, or retailer.
 - c. He also maintained that choosing on-farm storage over elevators is not necessarily wise in the current market environment – don’t underestimate the value of the services that your cooperative can provide.
 6. Equip yourself with knowledge about the market, government programs, and crop marketing insurance. (Raleigh Curtis also provided a **Crop Insurance Calculator** that you may download from the WSU Extension Spokane website and use to determine whether Crop Revenue Coverage at various levels may benefit you.) Understand what the market is telling you...most of all take the emotion out of your decision by having a marketing plan that allows you to attain your long term goals and “Write It Down!”
 - a. Ag Economist Ed Usset from the University of Minnesota, and instructor of “Winning the Game” workshops, recommends setting up target prices and “drop dead” dates to aid

in deciding on futures contracts. A plan for action should include timeframes that you will follow.

Kim Anderson, an Ag Economist from Oklahoma State University, maintains that while it is possible to decrease profit through poor marketing decisions, it is easier to increase profits through management decisions other than marketing – so don't neglect your farming decisions to focus on marketing. He reports on research from the Midwest that concluded that, despite of the common perception that farmers tend to sell in the bottom third of the market, farmers actually did a relatively good job of marketing wheat compared with professional advisory services (who are unlikely to incur large risks for their customer). Anderson also maintains that watching and worrying about the market outlook is overrated as it is an inexact science!

Raleigh Curtis could have provided farmers with a pat recipe on how to buy a put and a call and forward contract with a hedge to protect one's downside while keeping upside potential. Instead he said, "Know what motivates your behavior, make a plan for your future, and market your wheat at a price that moves you toward your goals." This sounds simple but it takes strong emotional control. The market price available for wheat today is at historic highs and in fact allows for some pretty respectable returns on investment.

Finally, if you believe you have your risk under control, you may give me a portion of your crop (say, 100 bushels) to sell with no recriminations after the fact. If several farmers do this then I will pay you back the average price per bushel. I'll gain some real experience for bragging or commiseration purposes... Ooops, there go those emotions again!

No takers? Well, at least you laughed; even if it was the same snicker I hear when I ask to drive your combine.

Appendix of references and useful websites

Anderson, Kim. Ag Economist, Oklahoma State University.
<http://agecon.okstate.edu/anderson/index.asp>

Curtis, Raleigh. Mid Columbia Producers, Inc. <http://www.mcpcoop.com/>

Farm energy calculators - planning tools designed to help producers save electrical energy, fuel or fossil-fuel-based fertilizers. From ATTRA – the National Sustainable Agriculture Information Service.
http://attra.ncat.org/energy_calculators.html

Grain Marketing Return on Investment Calculator and Crop Insurance Calculator. Download them free and view Raleigh Curtis's presentation at the WSU Extension Spokane County website.
<http://www.spokane-county.wsu.edu/smallfarms/management.htm>

MachCost Program, University of Idaho. A program for calculating costs of operating machinery. Download free at http://www.ag.uidaho.edu/aers/r_machcost_inst.htm

Usset, Ed. Grain Marketing is Simple, It's Just Not Easy. \$29.95 available at <http://www.cfm.umn.edu/simple/>

WSU Extension Farm Management websites has several enterprise budgets you can download and compare with your operation. <http://www.farm-mgmt.wsu.edu/SiteMap.htm>