

Farmer's Corner



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Dear Producer,

This publication has always focused on strengthening the relationship between farmers and country elevators. For this issue, we asked elevator owners and employees from all over North America, "what do you want to say to farmers?" Response was overwhelming; here are just a few of their comments.

RELATIONSHIP

As elevator owners we want the customers to be successful and to be profitable, we want to help them work through breakevens so they can grow their operations, all we ask for is for them to have the same respect for our operation and allow us to make a living for our employees and community.
– *IN (Independent)*

I put my best foot forward to serve the farmer. We could not be in business without good customer service. The more money we keep in our local area, the more it benefits everyone with a more robust local economy. Please come by more often. We have to sit down and talk about goals and set some target prices. I know that you are busy, but I would really enjoy the opportunity to help you develop a marketing plan.
– *GA (Independent)*

Is our relationship all about price or is it something much deeper than just price? We want to be more than just a place to sell grain. We want you to trust in this business. I think most local grain companies really have the farmers' best interest at the heart of things. That is something the big grain companies do not! Who works on issues that come up in daily grain marketing? We do!!! Who is open weekends, nights? We are!!! Who really cares? We do!!! – *ND (Co-op)*

We are not the enemy; in fact our business enjoyment/quality of life is better if we can help you - our customer. How can

we help you? Also, we want to do business with many successful farmers. How can we help you keep from being taken over by a larger operation? – *IN (Independent)*

I want my customers to understand that my job is to be their market maker; to go find and deliver the best pricing to them I can afford to do. Sometimes there are constraints that don't allow me to post the best price in the area, but I am always working to improve. Customers shouldn't be sheepish if they're selling grain to other places. I probably sell grain to many of the same places, and I understand that there are many reasons for a farmer to spread sales around. But I always want to be the first to know if we're losing competitiveness for their bushels, or if there is something more they would like us to help them with. Besides price, why do you come here? – *IA (Independent)*

The thing I most want to convey to my grain producers is exactly how bad I want them to make money. Many still believe all ag retailers and elevators are just out to make themselves money. Maybe some are! WE try very hard to get close to our producers so they will trust us with the task of helping them manage best so they can make the most money every year. Each of my salespeople has a spreadsheet to calculate cost of production, cost/bushel and or profit per acre. WE NEED OUR PRODUCERS TO BE PROFITABLE! – *WI (Independent)*

The elevators in this area which return dollars to the community are interested in supporting you and we need your help to continue our work in this community.
– *IN (Independent)*

It is our conviction that our business is still very relationship and service oriented. That principle gets tested over and over,

goes in cycles but always comes back to who do you trust and who carries your mail. If you found a trusted advisor who can deliver when crunch time comes, support that person, he is an important part of your business. Business relationships can be a number on a website with God only knows who is on the other end but the grower will not be a benefactor in that relationship. – *LA (Independent)*

PRICE

A lot of farmers that I know are waiting for the expected higher prices but today's prices for now and various new crop months are very profitable and that they should keep that in perspective. – *Canada (Independent)*

Here we are with the highest steady prices in history, trying to work with my farmers in pricing and contracting. I say, "what price do you need?" Farmer says "ALL I CAN GET". I can't write a contract for "All I can get!"
– *GA (Independent)*

Has the changing in the markets brought so much anxiety and turmoil into your marketing plans that it has become to much of a chore? Let's not get discouraged...its years like this that can do it to us all. The elevators have struggles, just like the producers do. Stay the course, stay positive, stay focused...and give your merchandiser a kind pat on the back every once in a while :) – *KY (Independent)*

Don't let the high prices confuse you. I see farmers become so confused with prices going higher they do not make a decision about contracting because prices are going higher.
– *GA (Independent)*

I would like farmers to know that higher grain prices come with a cost to them. Higher inputs, wider market swings,

constraints on local markets imposed by their banks, and other unforeseen problems. – *IL (Independent)*

No one knows what the price of any commodity is going to do! If anyone tells you where prices are going, get as far away from these people as possible and stay away because we can assure you that absolutely no one knows where prices are going. The only thing that we know for sure is that no one knows for sure! A good price is only a good price if you sell at that price. It does not matter what the price is if you don't sell. Very high prices will not last forever! History has proven over and over again that the cure for high prices is high prices just as the cure for low prices is low prices. The high price of commodities will do exactly what they are designed to do - increase production (supply) and reduce usage (demand). These basic economics are always in effect and are occurring as we speak. Although we don't know how long it will take - a month, a year, two years, etc. - producers will eventually oversupply the market and prices will come down. – *GA (Independent)*

Pick a target price and contract - don't try and wait on the top; you may end up at the bottom of the market. The markets can go down just as fast as they went up.
– *GA (Independent)*

BASIS

When the price is fantastic, it's not productive to focus too much on the basis. Some producers think the basis is "stealing" from them but a lot of times great prices happen when the basis is "cheap." Don't let that stop you from selling a great price. – *CO (Co-op)*

We (the elevator) are basis traders, not price traders. We don't make money from price changes. THE END USER sets basis levels. There is a risk involved in forward contracting and guessing at a basis. Therefore when we purchase bushels for 2-3 years delivery, we must have some

insurance built in to our bid. – *GA (Independent)*

If the end user bids us -80Z and we buy from the producer at -85Z we make 5¢. We don't make that 80¢. If there's a huge ground pile out our back door and we take that physical risk our basis may widen to -95Z. It's a supply/demand situation in our local area. We do our best to take your corn, even if we have to pile it on the ground, but we cannot do that for nothing. Which would you (or your banker) prefer? \$4.92 corn at an -85z basis or \$3.90 corn at -60Z? – *CO (Co-op)*

PROFIT

I get the same question from almost all our customers...“I know the prices are up, but how much higher will they go?” No one knows, but regardless of what it does, we know it’s at profitable levels and it’s never a mistake to sell at a profit. It’s impossible to hit the high or pure luck at best, so we need to concentrate on building a good average. Don’t forget that when you have a target in, it’s in front of the traders 17 out of 24 hours per day. – *IN (Independent)*

I have several bushels sold forward on my own farming operation. I am somewhat sad...but still very profitable. I am focusing on selling more forward bushels at even higher prices and not dwelling on the negative aspect of having already sold something lower than the current market. At this current pace, I expect to have collected more gross margin on my new farm in 4-5 years than I originally paid for the property. I realize that always selling on the top of the market is much more glamorous, however in the last 35 years I have never figured out how to do it. Furthermore, I have never met anyone who has! Slow and steady wins the race. – *MO (Independent)*

Being an ag retailer who sells inputs and buys grain I am often asked “What’s the price of corn or beans going to do next fall? Should I lock in my nitrogen, potash or phosphate for next spring?” My first response is “Is the market offering a price that is profitable?” If one of my growers locks in a fertilizer price that seems high, the next reaction should be to lock in a price for his corn or beans at the same time. The worst case scenario is to lock in high fertilizer prices, then watch the commodity market go down. None of us have a crystal ball. None of us can accurately predict the commodity markets. We need to concentrate on the things we can control. – *MO (Independent)*

Two Words: Target Orders! They work, and they work great! You can be a participant in the market around the clock and be exposed to greater opportunity! Also, don’t be discouraged when you sell and the market goes up, just look for deferred opportunities to sell, like after harvest or new crop next year. – *KS (Independent)*

Don’t be discouraged when you sell at a profit and the price goes higher. For 2010 crops, we were below profitable prices for most of the winter and spring unless you had grain sold earlier than that. The rally this fall rescued those who hadn’t sold, but we can’t always count on that. Keep making good sales! –*IA (Independent)*

When should you sell? NOW, if it gives you a reasonable profit. When your target hits, if we aren’t at a profitable price now. Who do you listen to for market advice? - Opinions are everywhere; no one knows. My advice is to market at a profit and don’t look back. When will your life change? Not by hitting the high. It will change from consistent profits, not a homerun season followed by a career ending injury (forced sales). – *IN (Independent)*

How is the current GROSS PROFIT opportunity today compared to last 10 years? The best it has ever been except if you sold corn in 2008 for \$6.50, which no one did. As the grower matches the sell price of his crop with 80% of the input cost (seed and fertilizer), then he is down to managing the risk of planting and harvesting a crop. Most growers are very strong and consistent at planting, growing, and harvesting a crop efficiently. Gross margin per acre is all about yield, price per bushel, and input cost. The 80 – 20 rule must kick in to stay focused. Sell price less 80% input cost = locked in margin per acre. Gross profit generates more investment decisions to improve crop, improved crop is more yield per acre = more \$ to grower. – *LA (Independent)*

Given the recent (and by recent I am referring to the last few years) volatility in the market and many producers reaction to it, I want to encourage them to focus on the fundamentals of ensuring the longevity of their business. As the current market continues to climb following our second harvest with climbing prices, the challenge to stay focused on this fundamental principle becomes even more difficult. More and more producers want to discuss market projections and where the price is going to go, despite knowing the profit that is on the table. We see now more than ever the importance of managing risk on both sides of the farm business equation. We are seeing again that high priced commodities lead to high input costs. Producers need to have plans for locking in costs and price with little room for market movement between them. – *OH (Independent)*

Rather than focusing so much on day to day price movements, I’d like farmers to really know what profit opportunities are out there and what selling a profit consistently can mean for years to come in their operation and their family. – *IA (Independent)*

AFTER YOU SELL

We truly want you to have good prices; that is a good thing for you and for us. We want you to know, however, that as the market goes up we are not making any additional money; in fact, we are actually incurring additional costs.
– *OH (Independent)*

If the market goes up after you sell, we cannot cancel a contract with you for less than the amount the market has gone up. That movement is cost to us, and the only way to

recover that cost is to have the grain to sell or have you buy out of the contract. – *GA (Independent)*

We have so many customers who think that we've made 1 to 2 dollars on their contracts because the market has gone up that much. If there is one thing I wish farmers everywhere would understand, it's that when prices go up after they sell, the elevator actually makes less money on those bushels.
– *IN (Independent)*

COMMUNICATION / LOGISTICS / HANDLING

It's important to compare apples to apples when you call to get bids - in other words, if you are looking at a JFM bid from someone else, be sure you ask us for a JFM bid and not just ask "what are you paying for corn?" I hope our customers realize that we keep our word. If we say we will move your grain during a certain time period we do it. Many of our competitors locally buy from farmers and then put the farmer off and move it when they feel like it meaning the producer is not getting his grain moved or money when he wants it. We do everything in our power to move it on their time schedule and I think that is a very valuable service.
– *OH (Independent)*

Keep us informed about your harvest progress. When we ask about harvest and how many acres you have to go, we are not trying to figure out a way to reduce our prices, but to upgrade our plan to handle the bounty that you are working through. – *IN (Independent)*

I would like producers to know how flexible we are when it comes to buying grain. If a farmer works through us, there a lot of the times we can redirect direct ship loads to a different terminal if one is closed, has a long line, or won't take the commodity. Also, the more producers keep us informed

about their operation, the more we can help them (pick up off their farm during harvest, if they have bad corn we have a lot more bushels and alternatives to help them out, etc.)
– *IL (Co-op)*

Getting accurate information when the truck comes across the scales really makes things easier for everyone in the long run. Going back and changing names on tickets which sometimes changes contracted bushels and spot bushels and so forth takes a lot of time and can delay the settlement process. – *IN (Independent)*

There is significant in and out cost associated with on farm storage. We have made significant capital investments to speed up unloading at our facility. We can compensate for some of the lesser price vs. going direct by getting your trucks unloaded quickly. – *GA (Independent)*

On the subject of storage rates, while I do believe producers should have some of their own bin space, they need to understand that they can't build, operate and maintain their own grain storage and handling facilities on my storage rates. Do the math. – *IA (Independent)*

FROM BANKERS

The market rally saved us this year. Things were very tight this year until the market saved us. This volatility is here to stay; to keep the farm in this new game it will take increased working capital and equity. – *WI*

What's the probability of losing money selling \$5 corn this year? – *IL*