

Ag Decision Maker

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Developing a crop marketing plan

By Steve Johnson, Extension farm management specialist, (515) 957-5790, sdjohns@iastate.edu

There's an old adage that states, "failing to plan is planning to fail." Do you plan to fail in marketing your old and new crop corn and soybeans? If the answer is "no" then what is your plan? Could you write it down and share it with your business partner and primary ag lender?

Procrastination and fear of being wrong are probably the primary reasons a farmer doesn't want to develop a written plan. As long as cash flow demands are met and the storage space is not needed, doing nothing seems logical. However, having a written plan develops both a purpose and accountability to market the grain in a timely fashion. Storage and interest charges are accruing on old crop bushels and many farms are challenged by cash flow and profit margins. Holding multiple years of corn or soybean crops can lead to the erosion of valuable working capital (*current assets minus current liabilities*) and the

need to restructure debt in order to make your cash flow work.

Follow a five-step plan

Consider these five primary steps in developing your written marketing plan for both old and new crop bushels:

- 1) Cost of production, cost of grain ownership and/or desired profit margin
- 2) Price objectives (both futures and cash prices)
- 3) Time objectives
- 4) Marketing tools
- 5) Reason for action

Cost of production for growing crops will vary greatly and is highly dependent on final crop yields. Consider using your actual production history (APH) yields prior to harvest. Also, consider the use of revenue protection crop insurance to mitigate a portion of both the yield and price uncertainty for marketing new crop bushels. Sell a portion of these new crop bushels when new

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Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Proven Yields and Insurance Units for Crop Insurance – A1-55 (4 pages)

Delayed and Prevented Planting Provisions – A1-57 (5 pages)

Computing a Cropland Cash Rental Rate – C2-20 (4 pages)

Flexible Farm Lease Agreements – C2-21 (4 pages)

Please add these files to your handbook and remove the out-of-date material.

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crop futures are above your spring price guarantee. Once the crop is harvested and stored unpriced, grain ownership reflects both the cost of storage and interest charges.

On-farm storage costs would typically be lower than that of commercial storage. This assumes the grain bins on the farm are paid for. Having the bushels stored on-farm can lead to more choices in determining the best cash bids and where to deliver those bushels. Building new grain storage and making principal payments can use up valuable working capital and add to future cash flow concerns.

Price objectives reflect both the futures price and cash price received. The difference between these two prices is called basis, which reflects the local supply and demand of that crop. With large old crop supplies readily available throughout most of Iowa, basis tends to be wider or weaker than normal. Futures prices have declined since late winter and reflect a large global supply of both corn and soybeans. Weather has not been threatening in most crop producing areas as of the early spring months. Thus, the combination of low futures and wider basis has created lower cash prices and has made marketing old and new crop bushels even more challenging.

However, the recent declines in both old and new crop soybean futures have resulted in slightly improved basis opportunities, especially for processor bids offered for late April and May delivery. This basis improvement may be limited, as the basis at most local elevators and co-ops remains wide, especially for soybeans.

Time objectives should reflect the seasonality of both futures and cash prices. Corn futures prices tend to rally in the spring and early summer months. This period often reflects the greatest uncertainty of production for a crop produced primarily in the northern hemisphere. Soybean futures prices typically rally in both the late fall and early winter months and again in the late spring and summer months. That is due to the uncertainty of production that occurs in both the southern and northern hemispheres during these periods.

The seasonality of basis varies geographically because of local supply and demand for those harvested crops. Processor bids tend to narrow in the late fall and early winter months as recently harvested crops are stored. Farmers tend to sell bushels in the later winter months for cash flow purposes. These basis bids tend to be attractive again in the spring months with the focus turning to tillage, planting, and spraying of new crops. Staff at local elevators and co-ops are often busy during this same time frame, thus not available to deliver large volumes of corn and soybeans to the processors.

Marketing tools to use include several choices. Farmers should consider use of a variety of marketing tools to spread their risk and attempt to time sales to capture futures when prices are high or basis when it narrows. These tend not to occur at the same time so use of spot cash and forward cash contracts can prove limiting. Tools such as hedge-to-arrive, basis, and minimum price contracts can separate the decision to accept simultaneously both the futures price and basis.

In addition, should a farmer prefer to manage the futures price yet not commit bushels to delivery, tools such as futures hedges and the use of both call options and put options should be considered.

A written crop marketing plan should note the reason for action of a particular marketing strategy or tool. This provides the purpose of why that decision was made, and hopefully reduces the second-guessing that comes with marketing crops. Your written crop marketing plan can remain flexible, should major changes occur to global or local supply and demand components. A commitment to price a portion of the bushels when either price or time objectives occur, whichever comes first, can help overcome emotional challenges.

The components of a crop marketing plan are contained in the Marketing Tools Workbook updated annually on the **Iowa Commodity Challenge website**, (<http://tinyurl.com/iacrops>). Old crop corn and soybean transaction logs are found on pages 52 and 53 while new crop corn and soybeans logs are located on pages 58 and 59 of that same online reference.



Increase leasing arrangement knowledge and communication between tenants and land owners at 2017 Farmland Leasing Meetings

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Iowa State University Extension and Outreach is hosting multiple farmland leasing meetings during July and August at various times and locations throughout Iowa. The annual meeting is offered to address questions that land owners, tenants, or other interested individuals have about leasing farmland.

Core components of the program will include land values and cash rent trends, cost of production, methods for determining a rental rate, legal updates regarding leases, and communication between tenants or landlords. Additional topics vary by location.

“More than half of Iowa’s farmland is rented, and strong landlord/tenant relationships are important for the long-term viability of Iowa’s valuable farmland,” said Alejandro Plastina, assistant professor of economics and extension economist at Iowa State University. “Cash rent values across the state of Iowa have declined for the fourth consecutive year, dropping by 4.8 percent from 2016, an accumulated 18.9 percent decline since 2013. Variations in the survey results occur at the county and district level. Farmland leasing meetings provide an outlet for further understanding of these results and more.”

The three-hour workshop is designed to assist landowners, farm tenants, and other agri-business professionals with current issues related to farmland ownership, management, and leasing arrangements. Attendees will gain a better understanding of current cash rental rate surveys and factors driving next year’s rents such as market trends and input costs. Comments from past participants highlight the value of the materials provided and depth of information covered in the short program.

A 100-page workbook is compiled for the programs, with resources regarding land leasing agreements such as surveys, sample written lease agreements, and termination forms, along with many other publications.



Farm tenants, land owners, and others involved in lease negotiations are encouraged to attend ISU Extension and Outreach workshops

Attend a local meeting

The leasing meetings being held across Iowa are facilitated by farm management specialists with ISU Extension and Outreach. A listing of county extension offices hosting the meetings is available online, (www.extension.iastate.edu/calendar/default.asp), with additional information available through the Ag Decision Maker website, (www.extension.iastate.edu/agdm/info/meetings.html).

For registration information, contact your ISU Extension and Outreach county office. Pre-registration is encouraged as an additional \$5 fee may be added if registering less than two calendar days before the meeting date.

The Ag Decision Maker leasing section, (www.extension.iastate.edu/agdm/wdleasing.html), also provides useful materials for negotiating leases, information on various types of leases, lease forms and newly updated Decision Tools, (www.extension.iastate.edu/agdm/decisionaids.html).



Produce better tenant-landowner communications with a farmland lease annual report

By Melissa O'Rourke, extension farm and agribusiness management specialist, 563-382-2949
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In some Iowa counties, as much as seventy percent of the land is farmed by producers who do not own it. Throughout farm country, there is a steady and increasing number of farmland owner and producer relationships.

There are two particularly common categories of farmland owners. First, there are owners who actively farmed the land in past years, have now retired and are leasing the acres to farm producers. In these relationships, a key consideration is the length of time since the owner was an active farmer. The more years that have lapsed since the owner was involved in active farm production, the more important it is to engage ongoing communication and education regarding the latest crop technology, production costs, and related trends.

Second, there is a growing number of farmland owners who have never been personally involved in farm production. Such owners may have inherited the land (or purchased it as an investment) and now lease it to active farmers. Some of these owners may have never lived on or near the farmland that they now own; in fact, some may have never seen the farmland. These farmland owners have a high learning curve, with much information to absorb regarding farming practices and the economics of crop production. At the same time, tenants must take on increased responsibility for anticipating questions and providing information to the landlord.

Communication is a key challenge for all farmland owners and producers. Farmland owners commonly express frustration that they do not know how their land is being farmed and what it is producing. Tenants may not understand that farmland owners often have a deep desire to learn how the farmland is being cultivated and cared for by producers. It is to the benefit of both owners and tenants to build relationships and communicate with one another.

Commonly, a farmland leasing agreement may include a provision requiring the operator to provide an annual report to the owner. See for

example paragraph 7(e) of the Iowa Farm Lease Form (AgDM File C2-12), (www.extension.iastate.edu/agdm/wholefarm/pdf/c2-12.pdf). See also paragraph 10 of the Iowa Cash Rent Farm Lease (Short Form) (AgDM File C2-16), (www.extension.iastate.edu/agdm/wholefarm/pdf/c2-16.pdf). The Iowa State University Extension & Outreach Farm Management Team, (www.extension.iastate.edu/ag/farm-management), has added an example form for this purpose in Farmland Lease Annual Report (AgDM File C2-06), (www.extension.iastate.edu/agdm/wholefarm/pdf/c2-06.pdf).

Purpose of the farmland lease annual report

The purpose of the annual report form is to enhance communication. This form is intended to provide farm tenants and landowners with a guide for sharing crop information for farmland rental agreements and to aid in communication. It is not intended to take the place of legal advice pertaining to contractual relationships between the parties. The parties can certainly revise or design their own form if changes are desired. However, by using this form, the parties will have a consistent format to share information.

Separate forms can be used for each parcel in a manner that is convenient for the parties.

If a form such as this has not been used in the past, the farmland owner and the producer should discuss the purpose of the reporting process. The parties should agree upon the confidential nature of the information shared on this form. A landlord must understand that the farm tenant does not want this proprietary business information shared with others who have no right to this data. Likewise, the tenant should understand that the landlord has a right to know how the farmland is being utilized for crop production. Conversations based on the reported information should help the owner and producer to grow in understanding their relationship, to the mutual benefit of both parties.

Produce better tenant-landowner communications with a farmland lease annual report, continued from page 4

Reporting sections

The Farmland Lease Annual Report, (www.extension.iastate.edu/agdm/wholefarm/pdf/c2-06.pdf) form is organized into several sections. Information can be recorded by the producer throughout the year. Early in the growing season, the producer will record the crop planted, seed varieties, and seeding rate as well as the planting date for each parcel. Another section allows space for the producer to indicate the type of tillage system utilized for each crop.

Fertilizer applications can be recorded in a section provided for that purpose, specifically pounds applied of nitrogen, phosphorous, potash, lime, or other nutrient applications. A later section is open to provide descriptive information on soil and land improvements. There is a notation to attach soil test results and maps that are available.

Pesticide applications, which may include herbicides, insecticides, and fungicides should also be recorded in sections provided for that purpose.

Finally, production results should be reported at the end of the crop year. Space is provided to report total and average production. The owner may request copies of crop reporting data prepared for government agencies or crop insurance purposes. Again, such documentation is confidential between the parties.

Farmland owners and producers may wish to revise or design a form more suited to particular purposes. This Farmland Lease Annual Report, (www.extension.iastate.edu/agdm/wholefarm/pdf/c2-06.pdf), is intended to provide a basic format for reporting. However, by using this form or something similar, the parties will have a consistent format and methodology to share information and enhance communication in the farmland leasing relationship.

Additional references

Ag Decision Maker Leasing Resources
(www.extension.iastate.edu/agdm/wdleasing.html)

Improving Your Farm Lease Contract
(AgDM File C2-01)
(www.extension.iastate.edu/agdm/wholefarm/html/c2-01.html)

Good Communication Can Help Solve Problems
(AgDM File C6-56)
(www.extension.iastate.edu/agdm/wholefarm/html/c6-56.html)

Developing a Farm Newsletter for Landlords
(AgDM File C2-14)
(www.extension.iastate.edu/agdm/wholefarm/html/c2-14.html)

Farm Newsletters – Are they worth the effort?,
(AgDM Newsletter) August 2016
(www.extension.iastate.edu/agdm/newsletters/nl2016/aug16.pdf)

Improving Business Communication Skills
(AgDM File C5-116)
(www.extension.iastate.edu/agdm/wholefarm/html/c5-116.html)

Improving Business Communications
(AgDM File C4-17)
(www.extension.iastate.edu/agdm/wholefarm/html/c4-71.html)

Updates, continued from page 1

Internet Updates

The following Information Files and Decision Tools have been updated on www.extension.iastate.edu/agdm.

Delayed and Prevented Planting Evaluator – A1-57 (Decision Tool)

Farmland Lease Annual Report – C2-06 (4 pages)

Farm Business Operating Agreement – C4-43 (2 pages)

Enterprise Operating Agreement – C4-44 (2 pages)

Current Profitability

The following tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Iowa Cash Corn and Soybean Prices – A2-11

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15

Share Your Feedback on Ag Decision Maker

To help make Ag Decision Maker the best resource possible, we invite you to share your feedback through a short on-line survey.

Please take five to ten minutes to complete **this short survey** (https://iastate.qualtrics.com/jfe/form/SV_6R4sqe0udZf1ifj).

If you have already completed the survey, thank you for sharing your opinion!

... and justice for all

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