Developing a Grain Marketing Plan

Almost all successful businesses have goals and marketing plans to assist them in reaching these goals. Marketing plans can be as simple or complex, but they are only as effective as your ability to implement them. Most written grain marketing plans contain the answers to the following 6 questions:

1. How many bushels do I plan to produce?
2. What are my breakeven costs for each crop? (acres and/or bushels)
3. When do I plan to sell?
4. Who do I plan to sell to?
5. At what price levels will I sell?
6. What marketing tools will I use?

Over the next few years written grain marketing plans will become commonplace. Producers who borrow money for crop operating and capitol purchases already provide their lenders a current financial statement and cash flow. A marketing plan will become another part of their lending requirements to help manage financial and price risk.

I recommend the use of two separate marketing plans: pre-harvest and post-harvest. The pre-harvest plan is submitted each winter along with the financial statement and cash flow. The post-harvest plan is formulated just prior to or just after harvesting the crop. This would allow an opportunity to make considerations for storage, LDP strategies vs. the use of marketing loans, and more effectively forecast the pay down of loans from stored bushels.

Managing Price Risk

Since 1998, the range of net profit potential per bushel for Iowa corn has averaged about 40 cents per bushel from January prior to planting until the actual harvest of the crop. This amount represents the price premium that new crop December corn futures builds each winter for the uncertainty of crop prices, prior to the growing season. As the growing season progresses, price uncertainty declines. When the crop is harvested, the supply side uncertainty is gone.

- the U.S. produced another large corn crop
- focus turns to demand for the product
- the December futures price has declined and no longer holds this 40-cent price premium

Seasonal Price Trends: New Crop Corn

On the Seasonality of December Corn chart, note that top bold line begins at $2.60 per bushel and represents the 10-year Average Weekly Price futures price from first week of January until the second week of December. The trend is for the highest prices to occur in roughly a 4-week time frame, from mid-March until mid-April. The price then trends lower until mid-May, when price increases for a brief period of time. After this time frame the price trends lower and puts in a low about early October.
Now look at the line that begins at about $2.55 per bushel. This line represents a 4-year Average Weekly Price for the growing seasons of 1998, 1999, 2000 and 2001. Note the similar trend in prices, with minor exceptions. Prices are at a lower level and the downward trend begins earlier. By mid-March, the trend begins to turn lower and continues lower. The only exception is a brief price increase in early-May. By early-July, there is no longer the 35 cents in price premium from last winter, and the price is nearly 25 cents below the early-May price.

The summer “weather market” is one of the most difficult times in which to price bushels, since the weather concerns driving the market prices higher is likely affecting your crop as well.

After July the price trends lower, bottoming at harvest. In all likelihood, very few bushels get forward priced after the winter highs. Optimism kicks in for an abundant harvest: more bushels that can be LDP’ed to offset these lower harvest prices. With corn prices seeming to be much too low, compared to last winter and spring, the thought of taking the LDP and holding bushels through the winter once again takes precedence.

Summary

The key to capturing higher new crop corn prices is to develop and implement a written marketing plan that moves “at risk” bushels well in advance of harvest. The graph below shows average Iowa cash prices and returns. Over the past 16 years, the only 2 years in which the harvest revenues ever exceeded the cost of production were 1995 and 1996. The widest variation occurred over the past 4 years, when narrow profit margins have been offset with larger government payments.

Today’s producer is managing more acres with tighter profit margins, and is thus exposed to more financial and price risk. Developing and implementing written marketing plans helps to manage that risk. Take a few hours over the next few weeks and put together a written Pre-Harvest Marketing Plan. Share the information with a business colleague and ask that they hold you accountable to put this plan in place.

Examples of marketing plans can be found at http://www.extension.iastate.edu/feci/Marketing/establish.html

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