HOW PRODUCERS MARKET THEIR CROPS

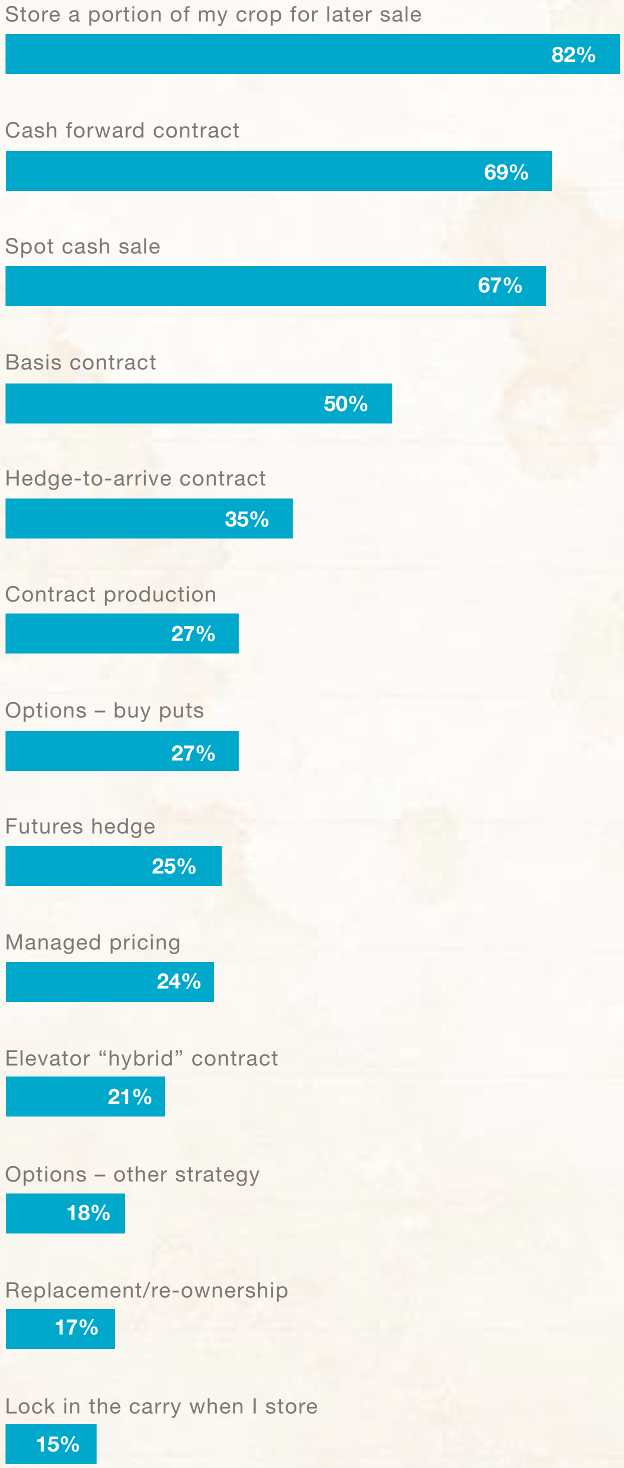
Grain producers use a variety of pricing tools in their marketing efforts. The survey asked all 648 survey respondents to indicate which of 13 tools they use in marketing their grain.

- One respondent selected all 13.
- Twenty-eight respondents selected only one.
- The most common number of tools chosen was three, selected by 124 respondents.
- On average, respondents selected 4.8 tools.

> "This illustrates that producers typically use a combination of crop marketing methods over time, which would be expected, given combinations of pre-harvest pricing for a portion of expected production, cash sales and post-harvest storage activities. In addition, pricing at different times and using different tools, in itself, reduces risk."

- Ted Schroeder
KSU agricultural economist and director of the Center for Risk Management Education and Research

Use of Marketing Tools



Percent of respondents

By far, the marketing tool most used by producers is grain storage, at 82 percent of all respondents.

> "The widespread use of grain storage as a marketing strategy makes sense because even producers who are aggressive in pricing a crop before harvest will likely have some yet to market at harvest, when basis and prices often are at their lowest, encouraging storage."
>
> **- Ted Schroeder**
> KSU agricultural economist and director of the Center for Risk Management Education and Research

Looking at frequency of use, 20 percent of producers say they *always* store a portion of their crop and another 28 percent say they do *most of the time.* However, 18 percent say they *never* store.

The second most-used pricing tool is cash forward contracting. Twenty-three percent indicate they use it *always* or *most of the time,* and another 47 percent note they use it *often* or *occasionally.*

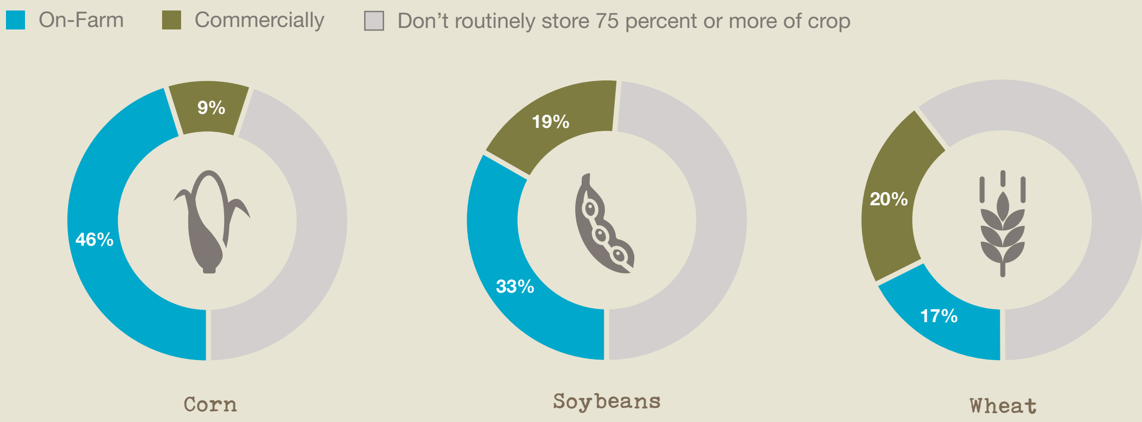
Spot cash sales are used by two-thirds of producers, but only 13 percent employ them *most* or *all* of the time. A very small number – 9 percent – agree that *"Only cash sales worked for my parents and it continues to be my preferred method of marketing."* Perhaps more surprising is that a third say they *never* use spot cash sales.

> "It might be that producers don't think of storing and then selling as a spot cash sale."
>
> **- Ted Schroeder**

THOSE ROUTINELY STORING 75 PERCENT OR MORE OF CROP

More than half of respondents indicate that they routinely store 75 percent or more of their corn and soybean crops. Only 37 percent do so with their wheat crop.

Forty-six percent of producers store 75 percent or more of their corn crop on-farm, while only 9 percent do so commercially. The commercial storage number jumps to 19 percent for soybeans and 20 percent for wheat.



In addition to using a variety of tools, producers access a variety of resources to inform their marketing decisions, as indicated in the chart below.

Use of Marketing Practices

Percent of respondents

NEBRASKA GROWER USES MULTIPLE TOOLS TO REDUCE RISK

Craig Smith grows corn and soybeans and backgrounds feeder cattle on grass near Arnold, Nebraska. When it comes to ranking risk, a combination of weather and price top his list.

"Price risk is really the biggest because our costs are not falling as much as the price of our products," he said. "You can control weather risk with crop insurance. Plus, we have irrigation so we aren't dependent solely on rain. Hail is a more acute concern, but we usually cover some of that with insurance as well."

Smith noted that hail initially was an add-on, but as hail premiums rose, he found it more economical to boost the level of his overall coverage. "We have an amount in mind to spend and we aim to get the most bang for our buck," he explained.

Last year that meant 85 percent revenue coverage in place of his prior 75 percent plus hail.

MARKETS INFLUENCE PRICING STRATEGY

Like many of the farmers who completed the survey, Smith works the income side of the ledger using a number of marketing tools. "Which I choose depends a lot on where I think the market is headed," he said. "If I am pretty sure it's going to go lower, I'll use a futures hedge. I'll also buy put options. Or in some cases I'm willing to buy a put and sell a call. That lowers the cost to set a floor, but it also limits the upside."

He'll also assign about 25 percent to an elevator-managed pricing program. "They charge 10 cents a bushel for the service, but I don't have any margin calls. They do ok, and that's a portion I don't have to think about," he said. His cash sales are often to a local feedlot where he can lock in the basis in advance.

"You have to know your cost of production and work off that. You have to know when you need to be marketing."

- Craig Smith
Nebraska grain producer

Timing-wise, Smith will generally sell up to half his expected crop in advance of harvest.

"You have to know your cost of production and work off that," he said. "You have to know when you need to be marketing."

Smith reads market advisory newsletters but doesn't follow the advice of any one service. "Weather is the big variable and if you could guess that, you wouldn't have to work for a living."

Overall, he says he's satisfied with his marketing results. "No one is ever totally satisfied," he said. "Everyone would like to hit the top. But over time, I've realized that if you beat the average, you are doing well."