How Producers Time Sales

In addition to using a variety of tools for pricing their crops, farmers also use multiple strategies for deciding when to price grain or make sales.

The marketing strategy most chosen, by 64 percent of respondents, is pricing in small increments. Other popular strategies include scaling up sales on rallies, pricing when it seems like a good time and pricing during seasonal price strength. Only 5 percent say they go for the "home run" and price a large portion at one time.

Use of Pricing Strategies

I price my crop in small increments.	64%
I scale up, selling as the market rises.	62%
I don't follow a specific timing plan and price when market conditions appear favorable.	59%
I price my crop mainly during seasonal (spring/summer) price strength.	53%
I price as soon as I see a profit.	37%
I price when I need cash flow.	29%
I price multiple years of crops when the opportunity arises.	26%
I price when my advisor says I should.	25%
I price when technical analysis (charts) say it is time to sell.	23%
I price when fear of still lower prices sets in.	18%
I scale down, selling as the market falls.	12%
I price some of my crop each month.	8%
I sell most of my crop right after harvest.	5%
I go for the "home run" and price a large portion at a time.	5%

Percent of respondents

How Important Is Marketing Discipline?

Knowing cost of production is widely regarded as a foundation for astute marketing. Yet, while almost three quarters of producers say they have a "good understanding" of their cost of production, only 62 percent say they use it in setting a price point for marketing their crops. Just 37 percent say they begin pricing when they see a profit.

Less than a quarter of producers currently use a managerial accounting system, which helps track profitability, and most producers don't have a written marketing plan.

Marketing Discipline

I have a very good understanding of my cost of production.	73%
I use my cost of production to set the price where I will begin pricing my crop.	62%
I use accrual (managerial) accounting for farm business analysis.	22%
I have a written marketing plan.	17%

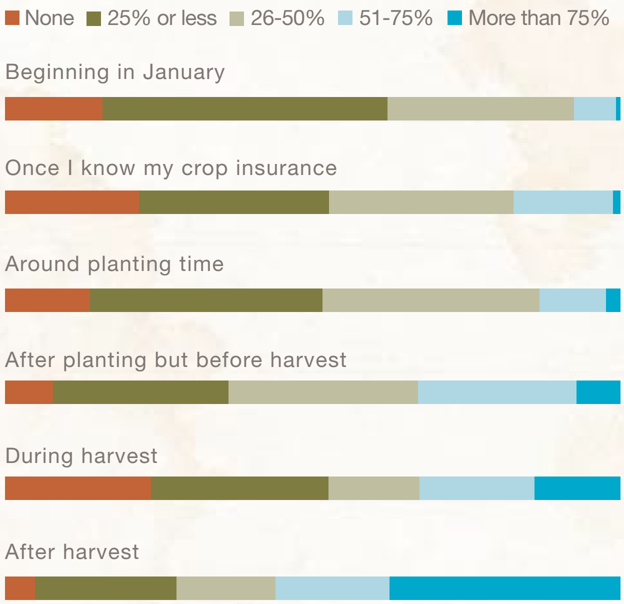
Percent of respondents

"Knowing cost of production is a fundamental input into an effective marketing plan. As a lender, we feel strongly that customers should maintain a financial system that allows them to track accrued earnings and projected production costs."

– Tim Koch
FCSAmerica senior vice president – chief credit officer

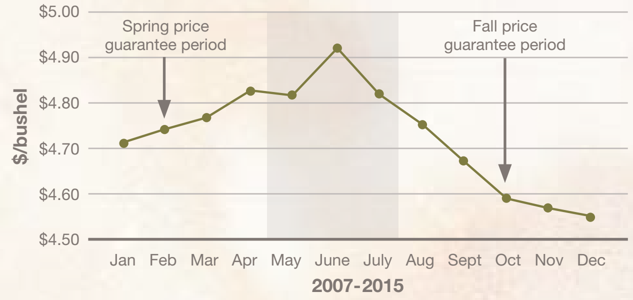
Less than 10 percent of the survey respondents are willing to price more than half their expected crop beginning in January. That number increases to 19 percent when crop insurance guarantees are established and to 33 percent during the growing season.

Willingness to Price Expected Crops

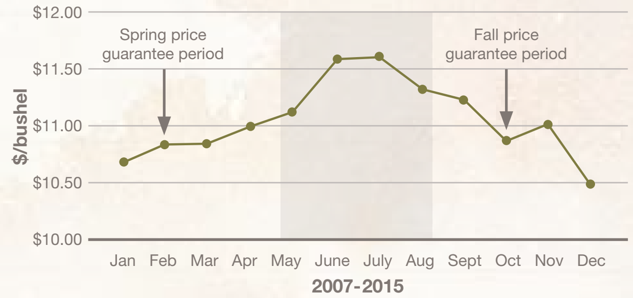


Given their concern about weather risk, it is not surprising that producers are cautious about how much grain they price ahead of harvest. Yet the best pricing opportunities historically occur during the growing season, as can be seen in the following charts.

Monthly Average December Corn Futures Closing Prices[2]



Monthly Average November Soybean Futures Closing Prices[2]



> "Most years, the market provides opportunities to lock in favorable prices. However, many find it difficult to sell a crop before it is in the bin."

– **Tony Jesina**
FCSAmerica senior vice president – related services

[2]Based on data from CME.

KNOWING COST OF PRODUCTION IS KEY TO THIS GROWER'S MARKETING PLAN

Phil Hofer, who grows corn and soybeans near Bridgewater, South Dakota, is a true believer that time spent learning marketing is time spent well.

After 30 years of refining his skills, he's quite satisfied with what he calls a "fairly aggressive approach" to marketing. "Some people want to hire someone to do the marketing for them, but I have found that tackling it yourself pays for the rest of your life," Hofer said.

He starts at the beginning: "You have to know your cost of production to be able to move forward," he emphasized. "I know my cost within $10-$20/acre."

LOCK IN PROFITS WHEN YOU CAN

"Anytime the market – futures minus basis – is above the cost, you have to take a hard look at it," he said. "If there's a profit, you have to lock it in on at least a portion of your crop – even if you are an eternal optimist."

He added that the past few years, the market presented only one opportunity for him to sell at a profit and that was *during* the growing season. "When the market rallies, usually someone is having an issue – such as drought – and hopefully it is not you. But when it is, that's where Revenue Protection comes in – providing the confidence to take advantage of the market opportunity even when your yields fall short."

Hofer takes 80 percent Revenue Protection on corn and 75 percent on soybeans. "I multiply the coverage level by my 10-year APH and sell that amount of bushels with confidence. I try to market most of my insured bushels before July 4."

He noted that the best time to sell corn is often between May 1 and June 15, or a little on either side of those dates. "Last year, the high was $4.48½ on June 18. Soybeans are a tougher animal to market because price patterns are not as consistent," he added.

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>
> **- Phil Hofer**
> South Dakota grain producer

CROP INSURANCE PROVED ITS VALUE

The value of crop insurance to marketing was proven in 2012 – the only year Hofer recalls that he had to rely on an indemnity payment to make good on a contract. "I sold pretty aggressively in the $5 range. Corn ultimately went to $8. Yields were hurt severely in this area. I still remember the day I took the indemnity check to the bank and then drove over to the elevator to buy out of the contracted bushels I wasn't able to grow." Hofer noted it worked perfectly, except for the cancellation fee the elevator charged that he had not planned on.

“Over time, what you gain on a forward contract most years far outweighs what you might be out in a severe year,” he said.

While he doesn’t put a marketing plan in writing, he sits down every fall and figures his cost of production. “Then I put in target orders,” he said, explaining that they are sales orders at his elevator. “Say for sake of argument, I offer a certain number of bushels at $4, then $4.10, $4.20, etc. If the price gets there, the corn is sold. You hope your starting point is the worst sale you make.”

"Many times, by the time you hear the market has jumped, the opportunity already has passed. February 28 this year was a case in point," he said. March corn opened near its low for the day at $3.61½ then bounced $0.18 when the EPA raised the conventional ethanol blending requirement. It closed at below $3.67. “If you didn’t have an order in, you would have missed the highest part of the move, which lasted about an hour,” he said.

> **"Over time, what you gain on a forward contract most years far outweighs what you might be out in a severe year."**
>
> **- Phil Hofer**

Hofer always separates futures from basis. “It pays almost every year to stay in tune with local basis trends,” he said. “In December, I usually lock in basis contracts for January through March deliveries based off the March contract. Then I roll to the May contract for April and May deliveries and the July contract for June and July. The basis seems to narrow up like clockwork, at least in this area.”

> **"Periods of thin margins really step up the need for a solid marketing plan."**
>
> **- Phil Hofer**

He also looks at grain storage as a profit center. “It allows you to deliver to the end user when he needs it, not when you need to move it. End users like knowing they have producers who will deliver to them on short notice, and that takes on-farm storage. It’s a win for the farmer to control your product.”

"Periods of thin margins really step up the need for a solid marketing plan," he emphasized. That’s why he’s trying to pass on what he’s learned about marketing to his son, who is just coming into the operation.