

# **SOLUTIONS FOR SUCCESS 3.0**

*Controlling the Crop Controllables*

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## **Learning Objectives: Developing a Call to Action for Your Farm**

**1. Having a Strong Faith**

**2. Managing Farm & Family Costs**

**3. Staying Focused on Controllables**

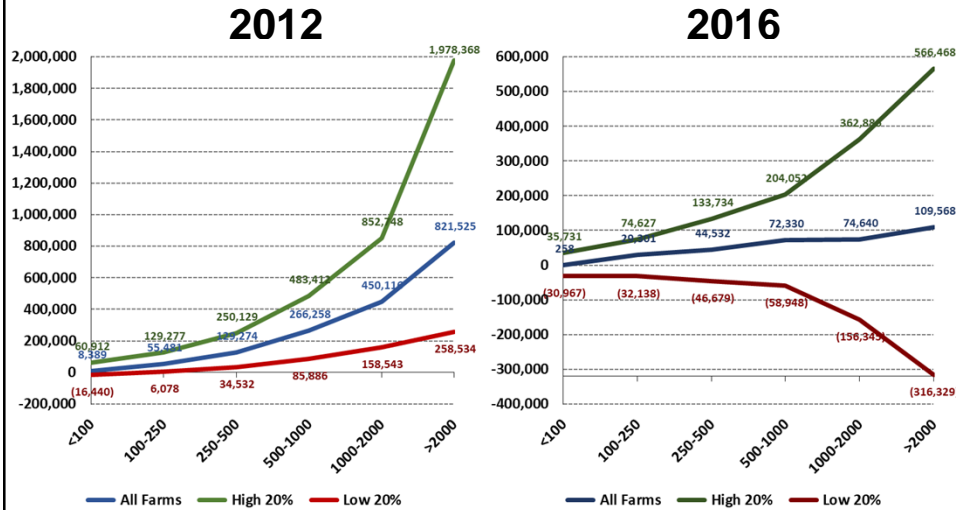
**4. Developing a Crop Marketing Plan**

**5. Providing Follow Through**

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Source: Johnson, ISU Extension, December 2017

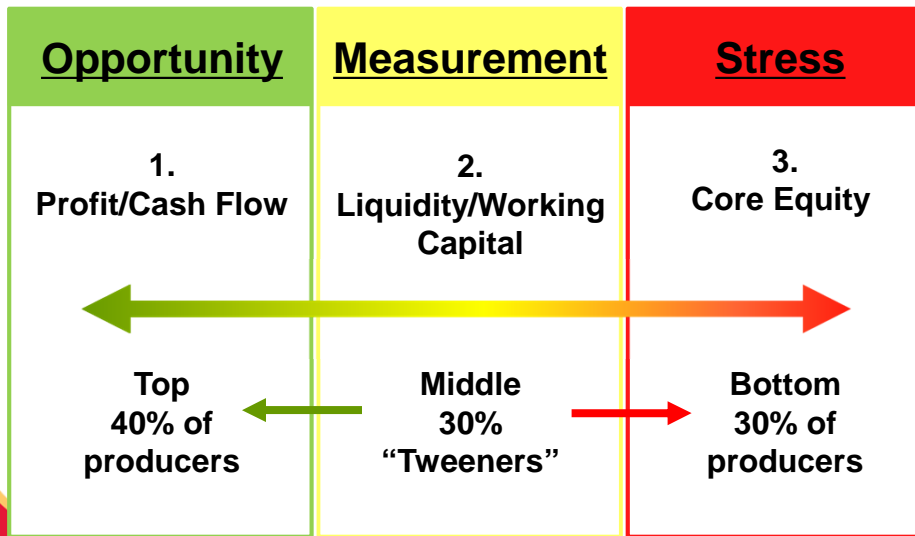
## Comparing Net Farm Income Trends: N = 8,000 farms



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Source: FinBin Database, University of Minnesota, October 2017

## Stages of Farm Financial Management



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Source: Dr. David Kohl, Virginia Tech, October 2017

## **Top 40%: Proactive Producers**

- **Make Incremental Improvements**
- **Higher Crop Market Prices (\$20 to \$40/A)**
- **Lower Cash Rent (\$20 to \$50/A)**
- **Lower Fertilizer Costs (\$20 to \$50/A)**
- **Modest Family Living Expenses**
- **Sound Financial Management**
- **Utilize a “Systems Approach.”**



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Source: Dr. David Kohl, Virginia Tech University, October 2017

## **Bottom 30%: Reactive Producers**

- **Lack Financial Management Skills**
- **Operate using Schedule F with “minimize taxes” Mentality**
- **Marginal Resources: Devaluing Machinery & Equipment, Buildings**
- **High Maintenance Living Costs**
- **Know it all or Victim Mentality**
- **Demographics are Cycling Them Out.**

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Source: Dr. David Kohl, Virginia Tech University, October 2017

## Case Study: Marty Merchandiser's Farm

- 1,580 Row-crop acres (1,300 acres in corn)
- 280,000 bushels of on-farm storage
- Fall/Winter cash flow needs of \$700,000
- 3,000 Row-crop acres with family members (shared combine, sprayer and labor)
- Marty's Actual Production History (APH) = 184 bu/A corn and 53 bu/A soybeans
- Buys Revenue Protection (RP) at the 85% level
- Pre-harvest markets up to 70% of corn APH using December futures (HTA and Hedges).

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Source: Farm Credit Services of America, November 2017

## Marty Merchandiser Overview

### STATUS QUO

**780 owned acres; 800 rented**

**Solvent operation:**

- Net Worth **\$6.8** million ↓

**Profitable:**

- 2017 Net farm income projected:  
**\$85,000**

**Challenges (2017 purchases)**

- Adjoining 80 acres @ \$8,000/A
- Built new 30,000 bushel grain bin
- Traded for newer combine
- Working capital reduced to **\$300** per acre

### PROPOSED SOLUTION

**1. Managing crop costs & family living expenses**

**2. Merchandising grain**

- a) Use Revenue Protection w/HTA contracts & Hedging Pre-Harvest




- b) Develop a Marketing plan for remaining unpriced 2017 bushels

**3. Making profit and cash flow management the priority!**

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Source: Farm Credit Services of America, November 2017

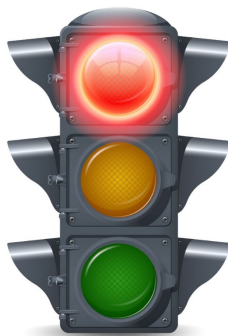
## Marty Merchandiser : Financial Changes (as of December 1, 2017)

Financial Categories	Status Quo	Proposed Solution
Working capital per acre (total crop acres)	<b>\$300/A</b>	
Machinery debt per acre (total crop acres)	<b>\$26/A</b>	
Real estate payments per acre (total crop acres)	<b>\$128/A</b>	

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Source: Farm Credit Services of America, November 2017

## Association Financial Guidelines



Financial Categories	Working Capital per acre	Machinery P&I per acre	Real Estate P&I + Taxes per acre
<b>Red</b>	<b>&lt; \$100</b>	<b>&gt;\$75</b>	<b>&gt; \$300</b>
<b>Yellow</b>	<b>\$200- \$100</b>	<b>\$50-75</b>	<b>\$200- \$300</b>
<b>Green</b>	<b>&gt; \$200</b>	<b>&lt;\$50</b>	<b>&lt; \$200</b>

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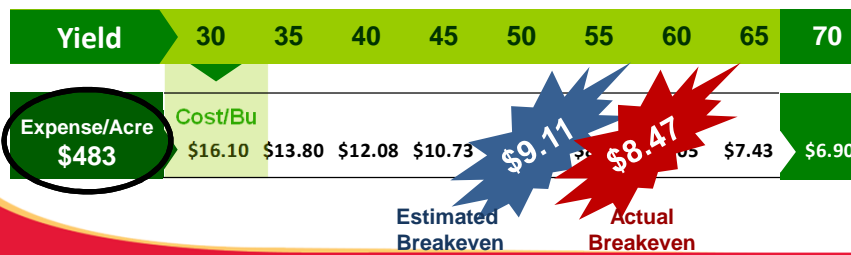
Source: Farm Credit Services of America, November 2017

# Calculating Marty's 2017 Breakeven Costs

## Corn



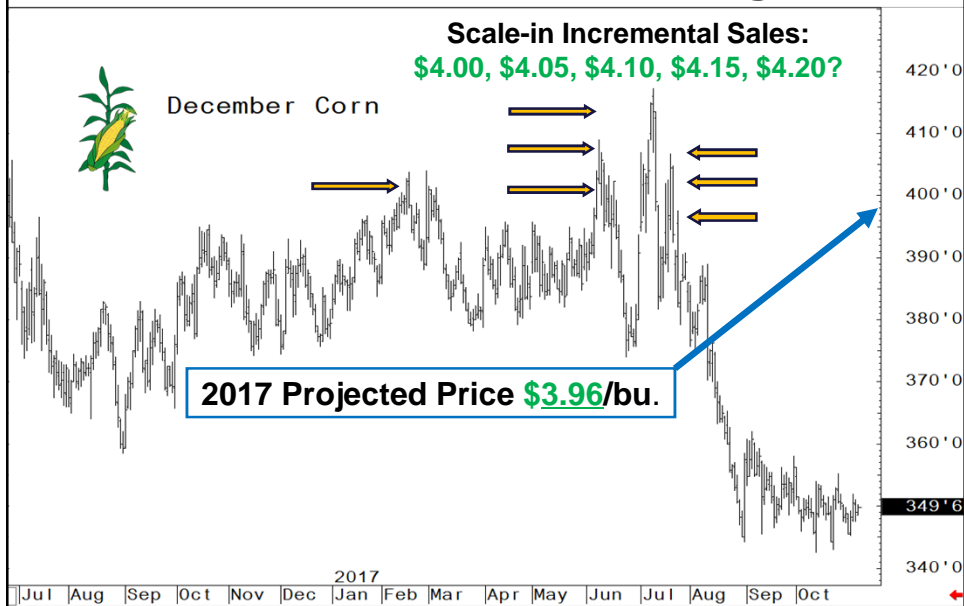
## Soybeans



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Source: Johnson, ISU Extension, December 2017

# December 2017 Corn Marketing Plan



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Source: www.cmegroup.com, Nov. 3, 2017

## 10 Steps for Developing a Crop Marketing Plan

Step 1: Know Your Actual Cost of Production (Good Records)

Step 2: Consider Your Cash Flow Needs (Next 12 Months)

Step 3: Use Your Actual Production History (APH) Data

Step 4: Build in a Reasonable Profit Margin (5% to 10% ROI)

Step 5: Understand Seasonal Futures Price Trends

Step 6: Track Local Basis Weekly (Multi-Year Data)

Step 7: Leverage Revenue Protection Crop Insurance

Step 8: Utilize a Variety of Crop Marketing Tools

Step 9: Calculate On-Farm vs. Commercial Storage Costs

Step 10: Develop & Implement a Crop Marketing Plan.



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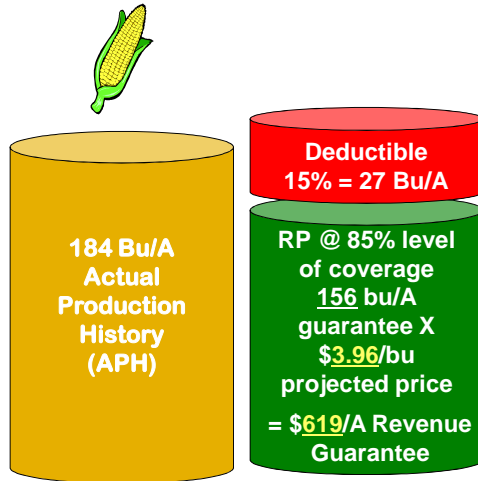
## December Corn Seasonal Trends (2000-2017 Futures Indexed)



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Source: [www.cfm.umn.edu](http://www.cfm.umn.edu), Usset, October 2017

## Marty Pre-Harvest Sells using Revenue Protection (RP)



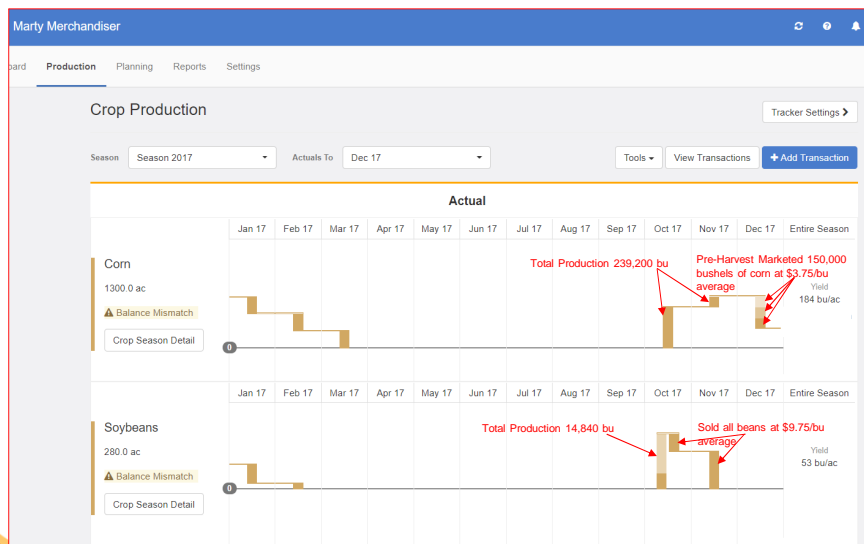
### Marketing Strategy

- Pre-harvest price up to 70% of APH bushels
  - HTAs and Hedges
- Deliver HTA bushels in fall/winter months
  - Cash flow = **\$700,000**
- Store excess bushels on-farm; once basis narrows, make cash sales using a variety of marketing tools.

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Source: Johnson, ISU Extension, December 2017

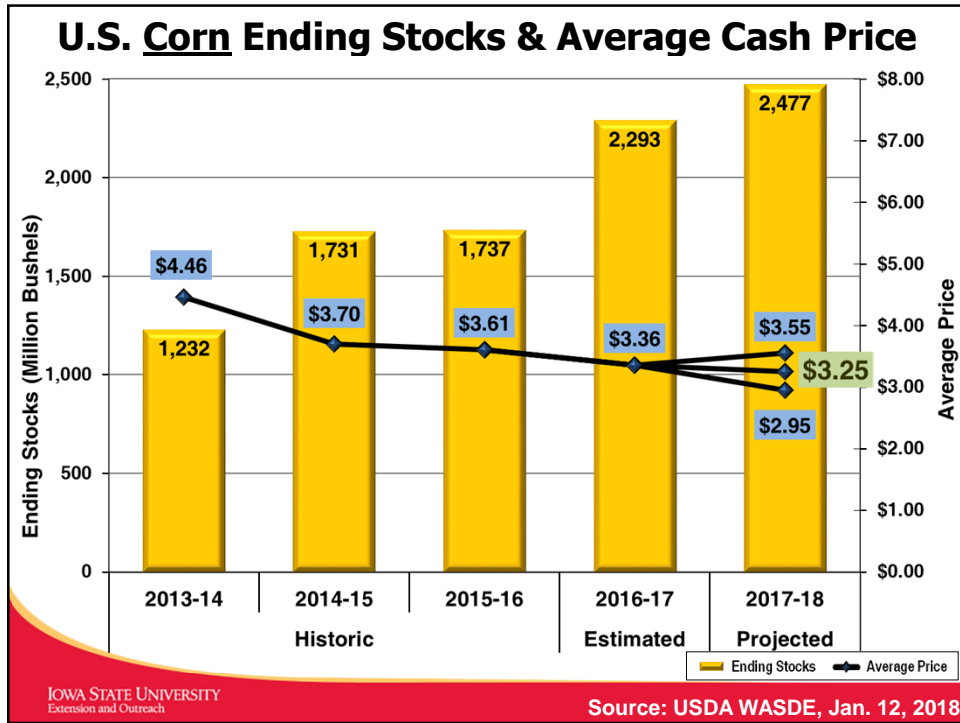
## Magnify: Pre-Harvest Crop Sales



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Source: Farm Credit Services of America, December 2017



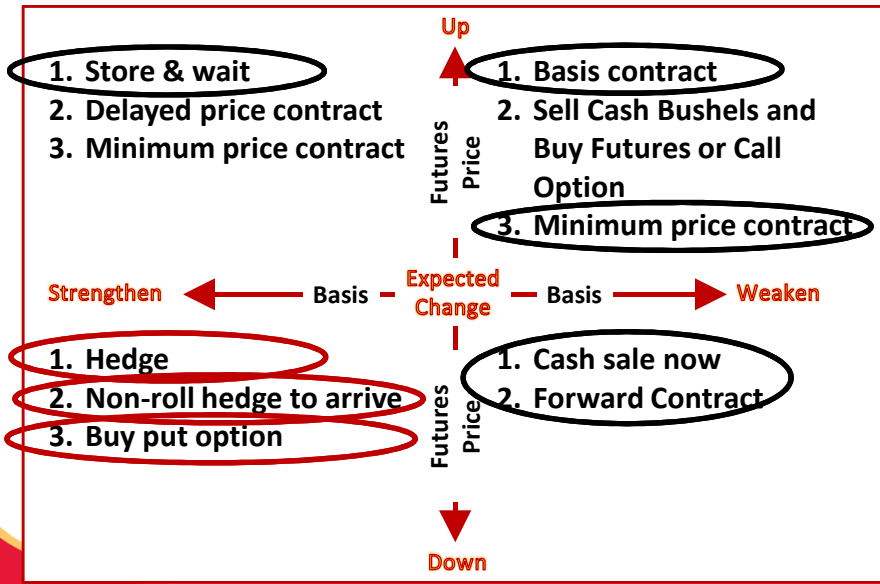


### U.S. Corn Supply and Use

		2013	2014	2015	2016	2017
Area Planted	(mil. acres)	95.4	90.6	88.0	94.0	<b>90.2</b>
Yield	(bu./acre)	158.1	171.0	168.4	174.6	<b>176.6</b>
Production	(mil. bu.)	13,829	14,216	13,602	15,148	<b>14,604</b>
Beg. Stocks	(mil. bu.)	821	1,232	1,731	1,737	<b>2,293</b>
Imports	(mil. bu.)	36	32	68	57	<b>50</b>
Total Supply	(mil. bu.)	14,686	15,479	15,401	16,942	<b>16,947</b>
Feed & Residual	(mil. bu.)	5,040	5,280	5,114	5,463	<b>5,550</b>
Ethanol	(mil. bu.)	5,124	5,200	5,224	5,439	<b>5,525</b>
Food, Seed, & Other	(mil. bu.)	1,369	1,401	1,424	1,452	<b>1,470</b>
Exports	(mil. bu.)	1,920	1,867	1,901	2,293	<b>1,925</b>
Total Use	(mil. bu.)	13,454	13,748	13,664	14,647	<b>14,470</b>
Ending Stocks	(mil. bu.)	1,232	1,731	1,737	2,295	<b>2,477</b>
Season-Average Price	(\$/bu.)	4.46	3.70	3.61	\$3.36	<b>\$3.25</b>

IOWA STATE UNIVERSITY Extension and Outreach    Source: USDA WASDE, Jan. 12, 2018

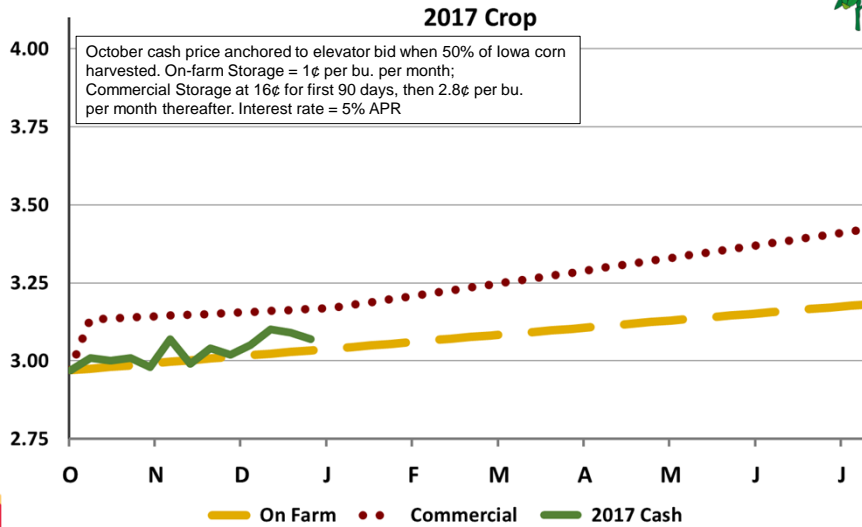
# Crop Marketing Matrix



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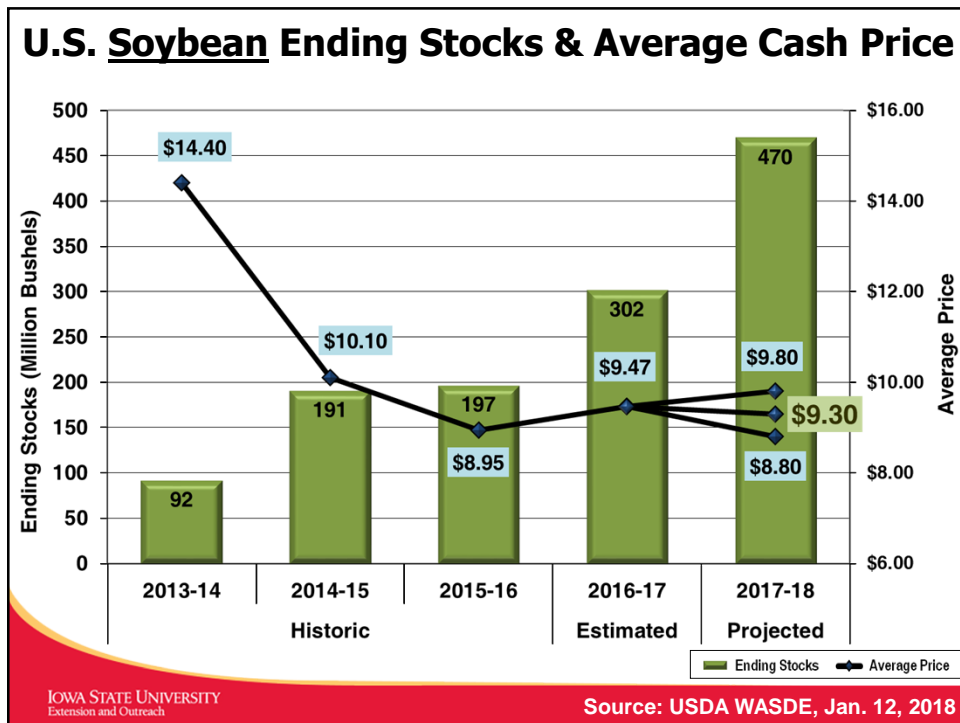
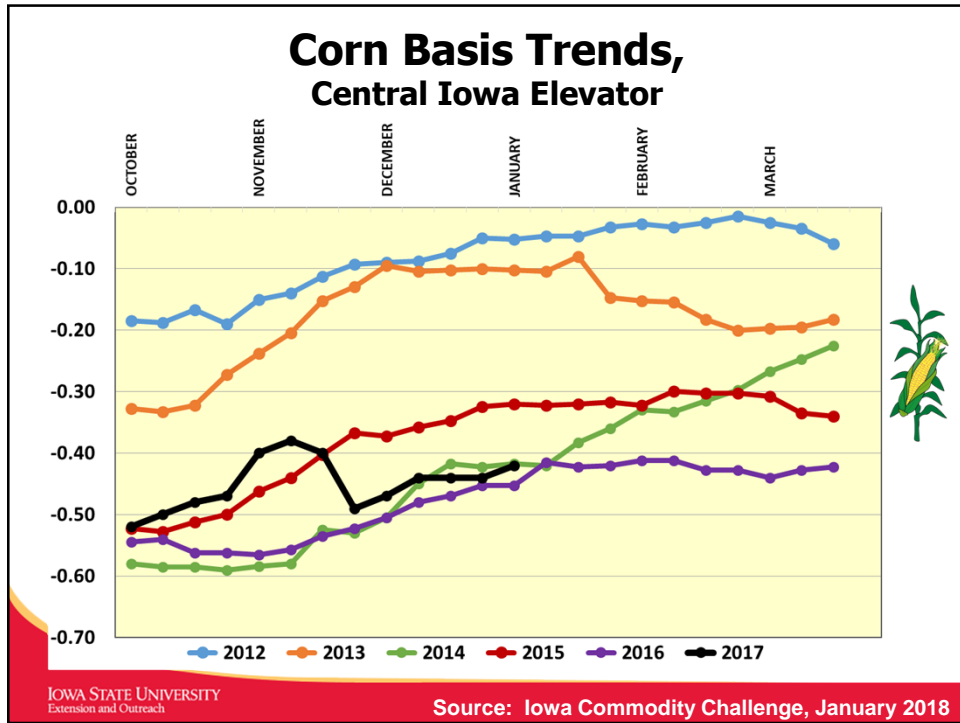
Source: Iowa Commodity Challenge, December 2017

# Corn: Cost of Ownership Trends (Central Iowa Elevator)



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Source: Iowa Commodity Challenge, January 2018



# U.S. Soybean Supply and Use

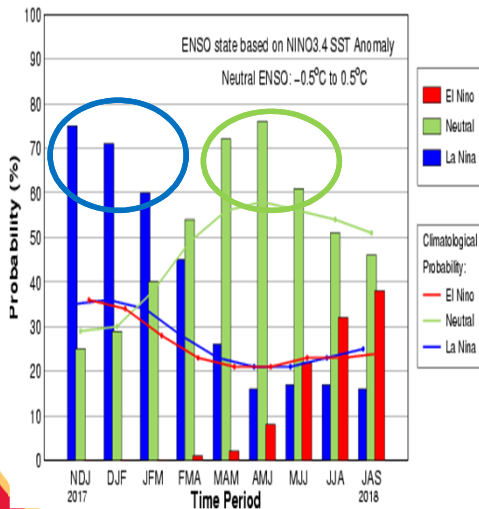
		2013	2014	2015	2016	2017
Area Planted	(mil. acres)	76.8	83.3	82.7	83.4	<b>90.1</b>
Yield	(bu./acre)	44.0	47.5	48.0	52.0	<b>49.1</b>
Production	(mil. bu.)	3,358	3,927	3,926	4,296	<b>4,392</b>
Beg. Stocks	(mil. bu.)	141	92	191	197	<b>302</b>
Imports	(mil. bu.)	72	33	24	22	<b>25</b>
Total Supply	(mil. bu.)	3,570	4,052	4,140	4,515	<b>4,718</b>
Crush	(mil. bu.)	1,734	1,873	1,886	1,899	<b>1,910</b>
Seed & Residual	(mil. bu.)	107	146	115	141	<b>139</b>
Exports	(mil. bu.)	1,638	1,842	1,942	2,174	<b>2,160</b>
Total Use	(mil. bu.)	3,478	3,862	3,944	4,214	<b>4,248</b>
Ending Stocks	(mil. bu.)	92	191	197	301	<b>470</b>
Season-Average Price	(\$/bu.)	13.00	10.10	8.95	\$9.47	<b>\$9.30</b>

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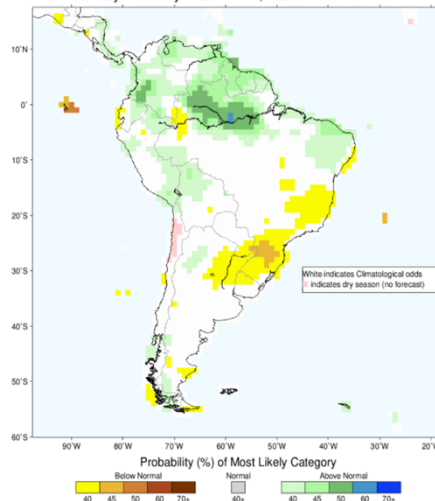
Source: USDA WASDE, Jan. 12, 2018

# 2018 Crop Weather Outlook

Mid-Nov IRI/CPC Model-Based Probabilistic ENSO Forecast



IRI Multi-Model Probability Forecast for Precipitation for January-February-March 2018, Issued November 2017



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Source: Bryce Anderson, DTN Meteorologist, November 2017

## November Soybean Seasonal Trends (2000-2017 Futures Indexed)



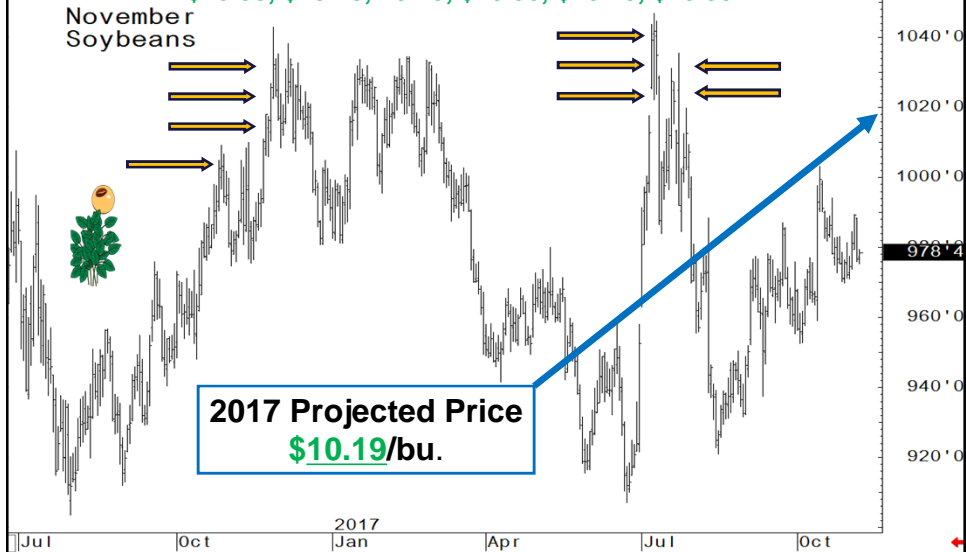
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Source: [www.cfm.umn.edu](http://www.cfm.umn.edu), Usset, October 2017

## November 2017 Soybean Marketing Plan

Scale-in incremental sales:

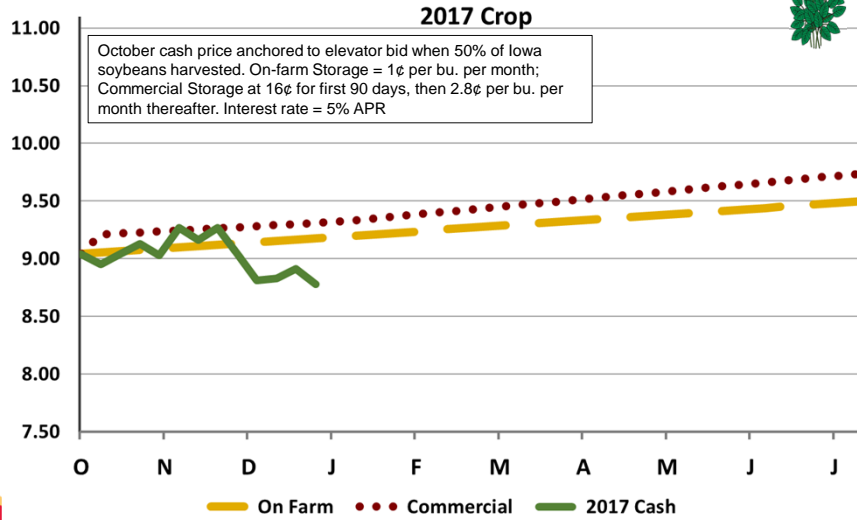
\$10.00, \$10.10, 10.20, \$10.30, \$10.40, \$10.50?



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Source: [www.cmegroup.com](http://www.cmegroup.com), Nov. 3, 2017

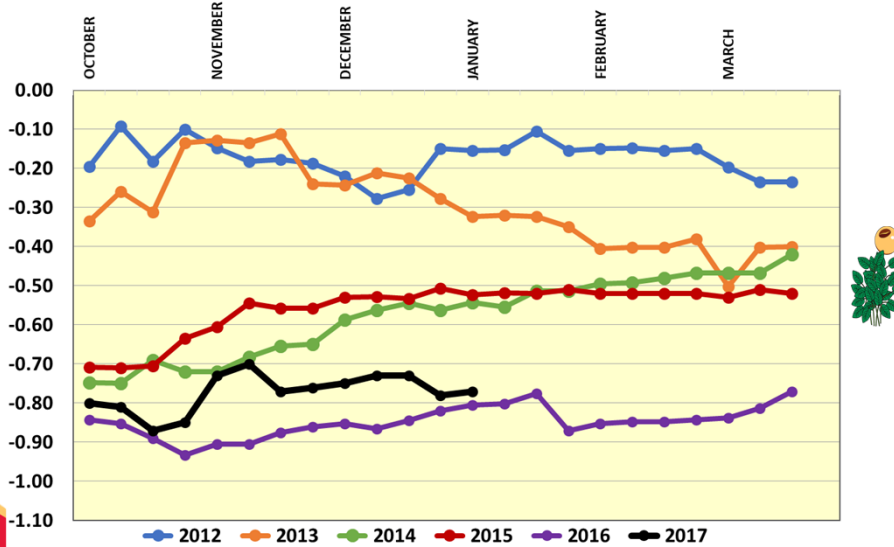
## Soybeans: Cost of Ownership Trends (Central Iowa Elevator)



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Source: Iowa Commodity Challenge, January 2018

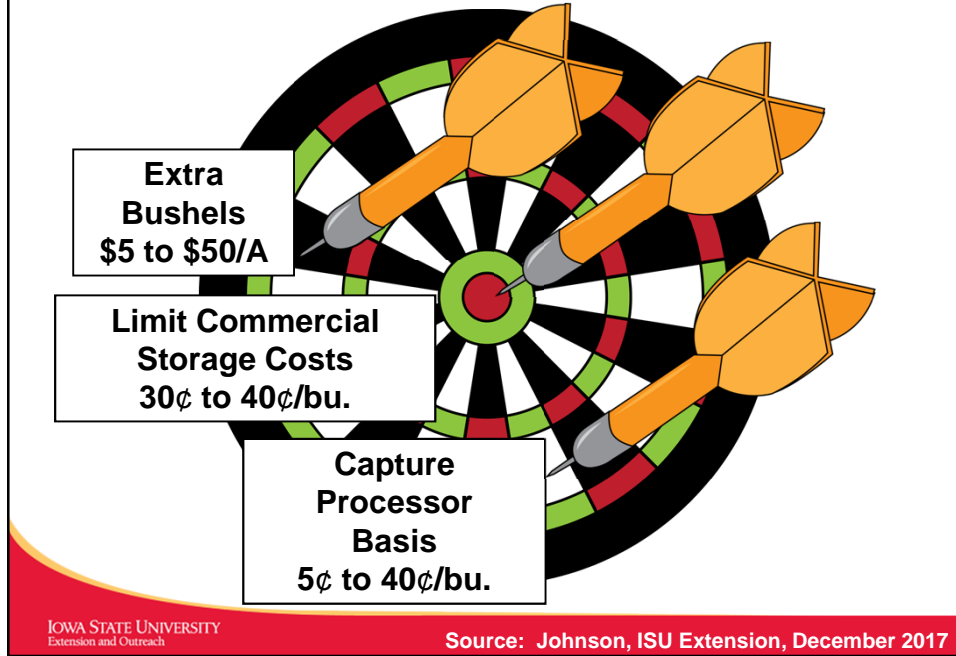
## Soybean Basis Trends, Central Iowa Elevator



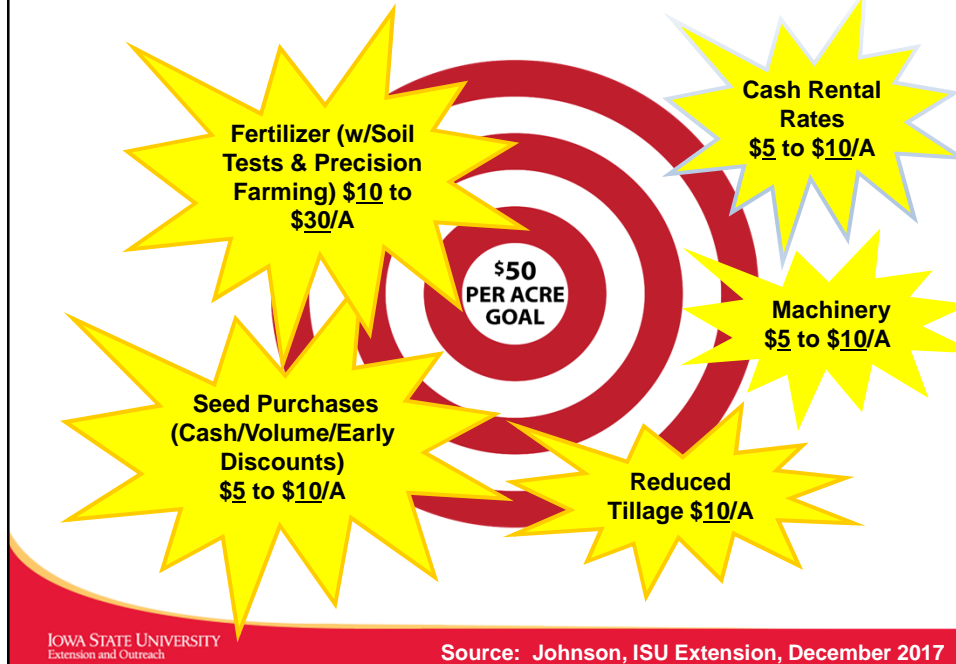
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Source: Iowa Commodity Challenge, January 2018

## Maximizing 2017 Crop Revenue



## Managing 2018 Crop Costs



## **Solutions for Tight 2018 Profit Margins**

**Develop a Call to Action:**  
*Utilize a Systems Approach,  
expand your use of farm  
financial management tools*

**Control Costs:**  
*Good records,  
calculate breakevens,  
monitor farm &  
family expenses*

**Manage Inputs:**  
*Renegotiate cash rents,  
soil test, seek early-  
pay/cash discounts,  
calculate ROIs before  
investing*

**Merchandise Grain:**  
*Develop a plan with  
time & price objectives,  
make pre-harvest sales  
to meet fall/winter  
cash flow*



**Faith, Focus & Follow Through:**  
***Controlling the Crop Controllables***

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Source: Johnson, ISU Extension, December 2017

## **Solutions for Success Web Sites**

- **ISU Extension - Ag Decision Maker**  
(Monthly Newsletter, Decision Tools, Iowa Commodity Challenge with videos, Marketing Tools Workbook, etc.)  
[www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm)
- **Iowa Farm Outlook & News** (Monthly Newsletter)  
[www.econ.iastate.edu/ifo/](http://www.econ.iastate.edu/ifo/)
- **Livestock Marketing Information Center**  
[www.lmic.info](http://www.lmic.info)
- **ISU Polk County Ext. Farm Management**  
[www.extension.iastate.edu/polk/farm-management](http://www.extension.iastate.edu/polk/farm-management)
- **Farm Credit Services of America**  
[www.fcsamerica.com](http://www.fcsamerica.com)

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