How to make smart grain marketing decisions

NEWARK, Del. — You can't sell a crop profitably without spending time and effort on the process. And this is a year-round job. A farmer who waits until the last minute to sell his grain is simply dumping it, not marketing it, says University of Delaware extension crops marketing specialist Carl German.

To get top return on the crops you grow requires the same kind of careful thought you bring to any part of your farm enterprise. Every day there are marketing decisions to be made:

Where and to whom will you sell?

Should you sell cash or futures?

Store or sell? Forward price or hedge?

When should you sell? What crops should you expand and which ones cut back on?

What's the best way to deal with your interest costs?

And how can you deal with the tax consequences of your farm operation?

Developing a good market sense may well cost you some money in the "school of hard knocks" at first, says German. But the process is not unlike learning to run any other part of your business. By evaluating the restuls of each marketing year, you can make improvements in the next.

It's never too late to begin developing some sound concepts and marketing skills. With all the uncertainties surrounding the 1980 corn and soybean crops, the sooner you start developing a realistic marketing strategy, the better.

Before you make any decisions, take a look at your options. Which will come closest to covering your costs of production and bring the desired return to management and profit?

Your alternatives include (1) selling cash at harvest or storing and selling later for cash; (2) forward pricing (hedging) on the futures market for sale at harvest or some later date; or (3) forward contracting in the cash market--priced or unpriced--for sale at harvest or sometime later. Each method has advantages as well as pitfalls.

With a forward cash contract you can sell grain priced for delivery at a specified time, or you can sell it unpriced. Selling unpriced grain generally involves signing a contract for future delivery at a price so many cents over the cash price or under futures.

Selling grain unpriced is usually done when you, the seller, expect a price increase to occur between the time the contract is written and the future delivery date when the transaction actually takes place.

Terms for unpriced contracting vary between local elevators and brokerage houses, so discuss specific terms with your elevator manager or account executive. Stored grain is often unpriced for future delivery in a specified month. The seller may agree to pay drying and storage charges up to a certain date.

The object of storing grain for later sale is to take advantage of any price increases that may occur.

The object of hedging the stored grain is to protect yourself from adverse price changes. Generally forward contracting cash priced grain or hedging in the futures market is done when a price decline is expected.

It only pays to place a hedge in futures if local basis, cash, and futures price movements are favorable in your particular location.

The alternative to either forward cash contracting or hedging is to sell strictly in the cash market. This doesn't afford you any price protection, however. Instead of averting price risk as one does with forward contracting, you simply become a risk taker.

Which of these three alternatives you choose will depend on your pricing objectives, liquidity and the amount of risk you are willing to accept in marketing your crop. Some farmers find a combination of approaches most profitable.

In considering forward contracting vs. cash sales, there's no general rule as to how much your crop to sell at any time. Different consultants have different opinions.

It does make a lot of sense, however, to do your marketing over the course of a year, rather than all at once. This increases the probability of your receiving a higher average price, explains the specialist.

How much you contract for or hedge at a particular time is an individual decision which should be based on the condition of your crop, your financial position and your ability to bear risk.

Forward contracting in the cash or futures markets does have some pitfalls, but most of these can be avoided, says German. Some of the most serious are: leaving marketing decisions until the last minute; overcontracting; failing to understand the terms of the contract; letting someone else make your marketing decisions for you; failing to compute a target price; and locking in a loss.

Leaving marketing decisions until the last minute: If you want to do a good job of marketing, start planning your strategies a year in advance.

It may be wise to consider spreading sales over the course of a year. Leaving them until the last minute is often the most costly mistake you can make.

For example, if you need storage space in a given year and haven't made arrangements prior to harvesting, you could well end up dumping your crop on the cash market, regardless of the price at harvest.

Overcontracting production: You may have to buy

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