

Making grain marketing decision is complex

NEWARK, Del. — With all the confusion concerning the grain market outlook these days, farmers are having a tough time arriving at a practical sales strategy. Most growers are fairly dependent on price forecasts in setting their price objectives, says University of Delaware extension marketing specialist Carl German.

Basically, farmers have two types of forecasts to go on — distant futures contract prices, or the predictions derived from sophisticated econometric models. These models consist of a set of mathematical equations designed to account for the variability in

conditions affecting price.

Which method is likely to be a more reliable indicator of price trends?

A study by University of California economists Just and Rausser, published in 1981 in the American Journal of Agricultural Economics, sheds some light on the question. When they compared the two forecasting methods, they found no overwhelming evidence in favor of either. However, says German, they did find that in general futures market prices are surprisingly accurate indicators, when compared with econometric forecasts.

Neither system is necessarily to blame for the errors involved in price forecasting, the specialist says. Forecasts often are swayed by external factors not easily accounted for.

Since there's considerable room for error in any price forecasting sales strategy, how can farmers pick a reasonable and profitable approach to marketing their crops?

About eight different approaches are currently in use. Which method or combination of methods growers choose depends on the degree of risk they're willing or

able to accept. This is how German describes each system:

—Fair Weather/Foul Weather Approach. "Essentially," he says, "this boils down to the attitude: if it feels good, sell a little; if it feels bad, sell a lot."

—Cash Flow Approach. "This method involves a lot of guesswork," German says. "In the past, many farmers have stopped using any strategy at all after attempting this approach. The advent of the micro-computer may help make it more accurate."

—What's The-Market-Going-To-Do Approach (Price Forecast). This is probably the most widely accept approach to marketing, the economist says. When used by itself, it is probably the riskiest.

—Milk Check Approach. "The philosophy behind this one is, if you need money, make a sale. This is O.K.," German says, "if you're milking cows. Otherwise, it's no fun."

—Balance Risk In Conjunction With Market Planning. "This approach starts to make sense," he says. "Again, the advent of the computer should help make it more manageable."

—Consider-The-Odds Approach. Price probabilities are difficult to quantify, the economist says.

—Consider-Everything Ap-

proach. This method uses econometric modeling. It is thorough, but requires a good model and good data.

—Cost Plus Approach. Essentially, know your cost and sell when the market is above cost. "This method is subject to error due to yield variability," German says "but historical yield data for a given farm or area will provide sufficient base for deriving estimates."

At present he recommends farmers use this cost plus approach, using a combination of price forecasts and risk analysis to plan commodity sales.

"In the case of grains," German says, "you have about two years in which to market a crop. Experience suggests that the marketer who begins his sales strategy a year ahead of harvest profits more than the one who starts planning sales at harvest. This is primarily because marketing in advance of a crop gives you more time to take advantage of profitable pricing opportunities."

Timing is the most important point to consider when marketing farm commodities, the specialist concludes. Proper timing of sales can make the difference between profit and loss.

4-day interval in DHIA

UNIVERSITY PARK — The Pennsylvania Dairy Herd Improvement Association (DHIA) is averaging a turnaround rate of 4.0 days, reports Phil Dukas, Pennsylvania DHIA general manager. This figure represents the average between the date a sample is collected and the time the processed management package is in the mail on its way back to one of the 6,200 participating dairy farmers.

"Our members are telling us that economics are forcing them to put DHI to use more quickly," says Dukas. "Six days, the previous average, was too long a delay for their culling decisions, feed changes and cattle sales. At four

days we are nearing the limit for our current structure, but our members feel even this turnaround rate may not be acceptable for long."

The Pennsylvania DHIA's current turnaround time is the lowest in the nation. "Without an effective network of supervisors, staff, and Extension agents, we could not achieve anything nearly as efficient," Dukas says.

When asked what DHI will do to further deduct the turnaround rate, Dukas replied, "We are working to improve supervisor quality and to decrease the reporting errors that cause delays. The next major step will be electronic data transmission from

the farm and an increase in the number of computer runs each day."

Since 1982 Pennsylvania DHIA has made changes to improve quality and efficiency, including a new data entry facility, electronic editing of reports and labor saving lab techniques. "In October we will be announcing a new system to automatically transfer cows between herds," says Dukas. "This will improve accuracy and may knock another tenth of a day off turnaround."

Sire Power plans Md. open house

FREDERICK, Md. — The Maryland Sales Division of Sire Power will hold its annual Open House on Thursday, Oct. 11, from 10 a.m. to 3 p.m. at the Maryland headquarters near Frederick.

Highlighting the afternoon program will be Karl K. Kettering, motivational speaker.

In addition, General Manager, DuWayne A. Kutz, will review the past year's business and bring members up to date on Sire Power Programs and Services.

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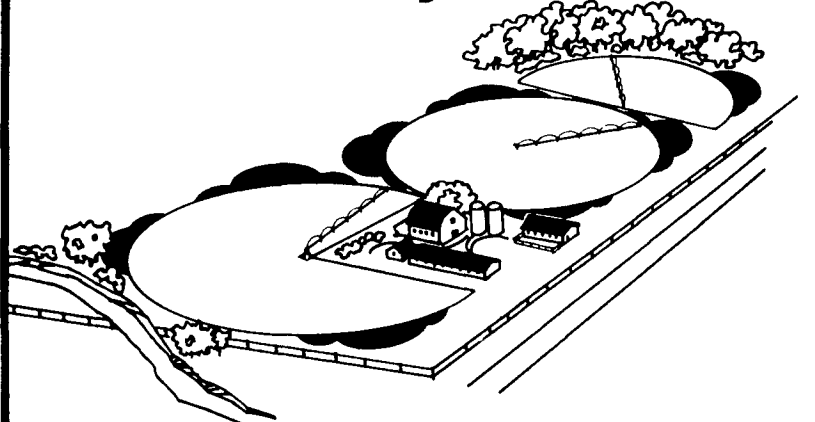
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