



A Systematic and Disciplined Approach to Crop Marketing

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Why is Crop Marketing so Frustrating to Farmers?

- Crop prices are extremely volatile
 - Within year
 - Year-to-year
- Crop prices are hard to anticipate or forecast
 - Numerous price making forces that interact in a highly complex fashion
 - Acreage, yield, trade, livestock numbers, Asian **RUST**, policy,...







Compare Your Average Price Received to a Realistic Benchmark

Last Year? _____

3 Year Average? _____

5 Year Average? _____

A Systematic and Disciplined Approach

- **Step 1:** Start by getting the facts on marketing track record
- **Step 2:** Use a systematic and unbiased framework for benchmarking performance
- **Step 3:** Consider new marketing strategies in light of results in the first two steps

Complete Approach to Benchmarking

1. Assemble records for a given crop: bushels sold, cash and forward sales, futures and options transactions
2. Adjust each sale for moisture and quality discounts; sale prices should be stated on a No.2 basis for corn and No. 1 basis for soybeans
3. Compute the weighted-average cash price received
4. Subtract physical storage charges on all bushels stored post-harvest
5. Subtract interest opportunity cost on all bushels stored post-harvest
6. Compute profit/loss on all futures and options transactions
7. Add LDP and/or marketing loan benefits??
8. Compare to the 24-month average cash price
 - Adjusted for storage costs
 - Include LDP/MLGs??

Quick Approach to Benchmarking

1. Assemble data to compute marketing weights each month over the 24-month pricing window for a crop year
 - Account for forward, futures and options sales
2. Multiply weights by monthly average prices
 - Prices should be adjusted for storage costs
 - Prices should be for a comparable area, e.g., central Illinois
3. Add speculative futures/options gains or losses
4. Include your weighted-average LDP/MLG gains??
5. Compare to the 24-month average cash price
 - Adjusted for storage costs
 - Include LDP/MLGs??

Evaluating Performance

- **Bottom Line:** Compare price received for a crop to the price offered by the market
- **Two important comparisons**
 - Top third of price range
 - Average price

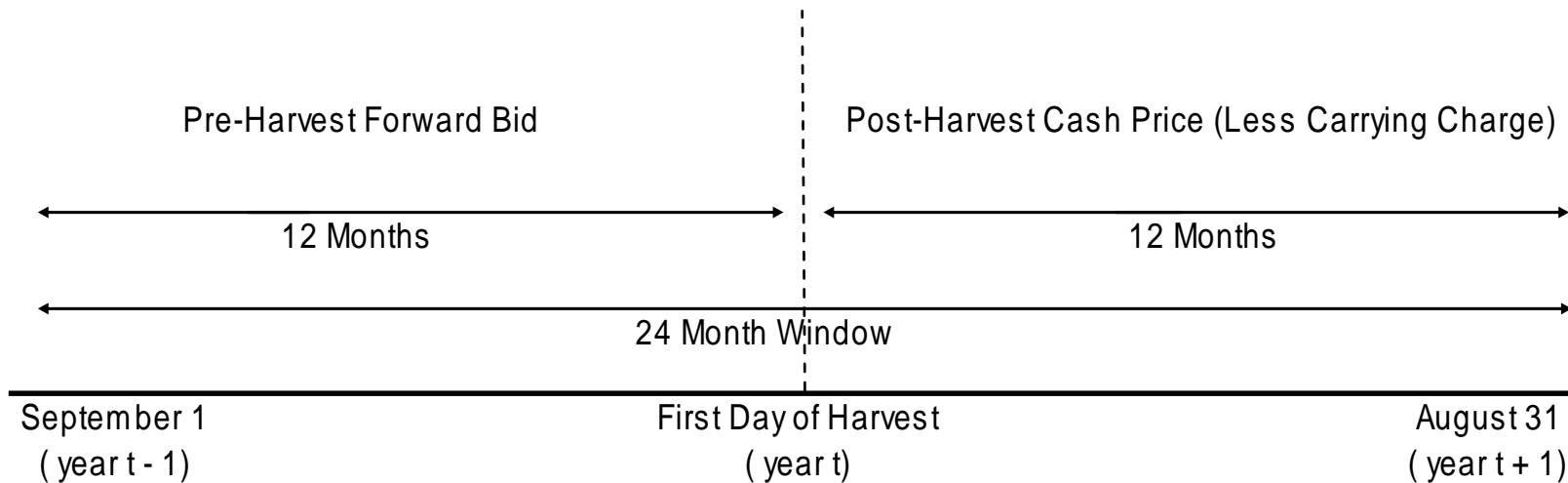
Conventional Approach to Comparison of Crop Year Price Ranges

- Post-harvest cash prices only
- Range of prices = high - low
- Divide range into top third, middle third, and bottom third
- No adjustment for carrying costs

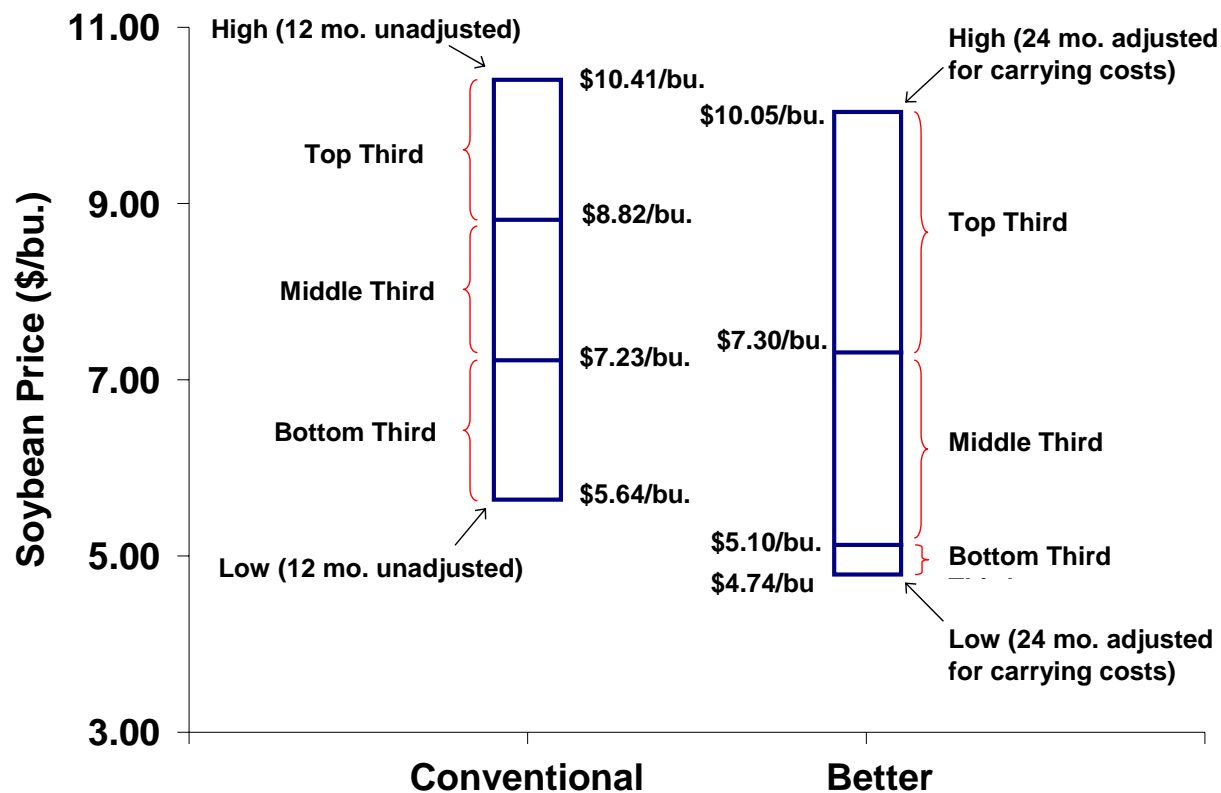
Better Approach to Comparison of Crop Year Price Ranges

- Pre- and post-harvest cash prices included (two-year marketing window)
- Adjustments for carrying costs (interest + commercial storage)
- Thirds based on equal number of days in each price range (time-weighted)

24-Month Marketing Window for Corn and Soybeans

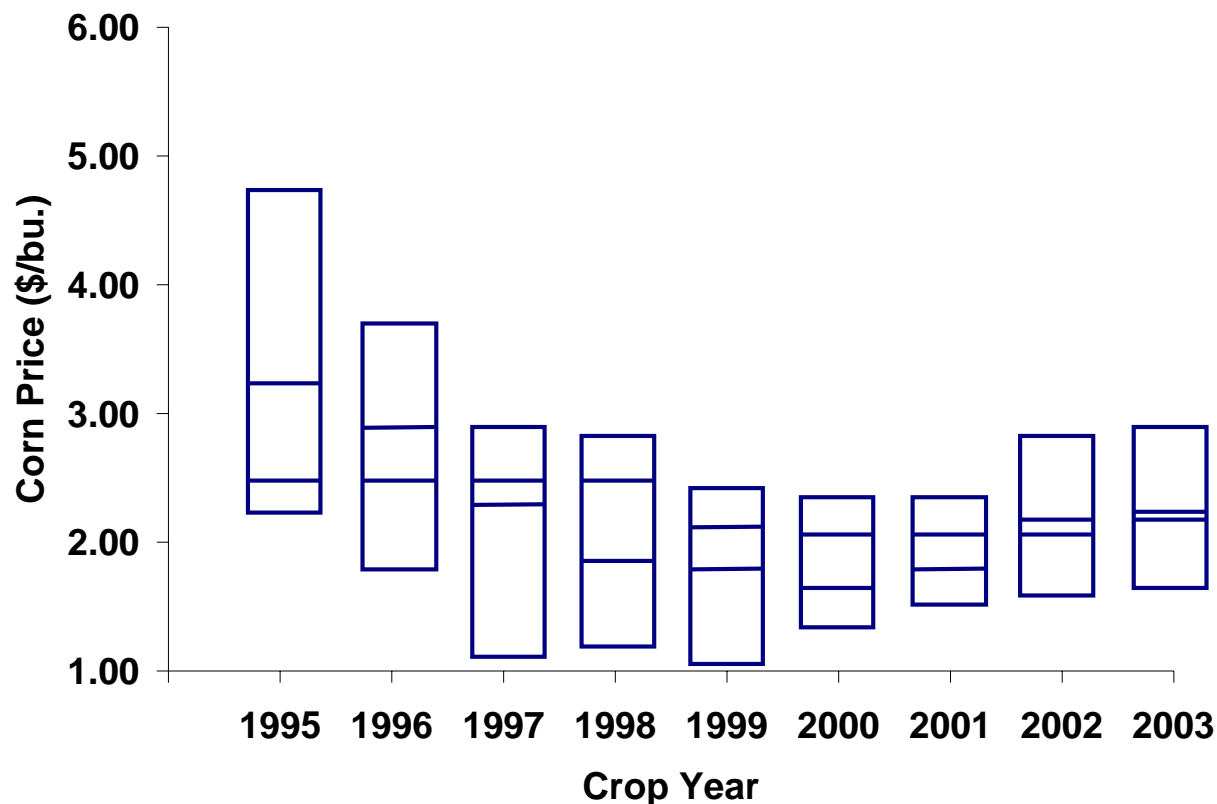


Conventional and Better Measurements of Price Range for Soybeans, 2003 Crop Year, Central Illinois



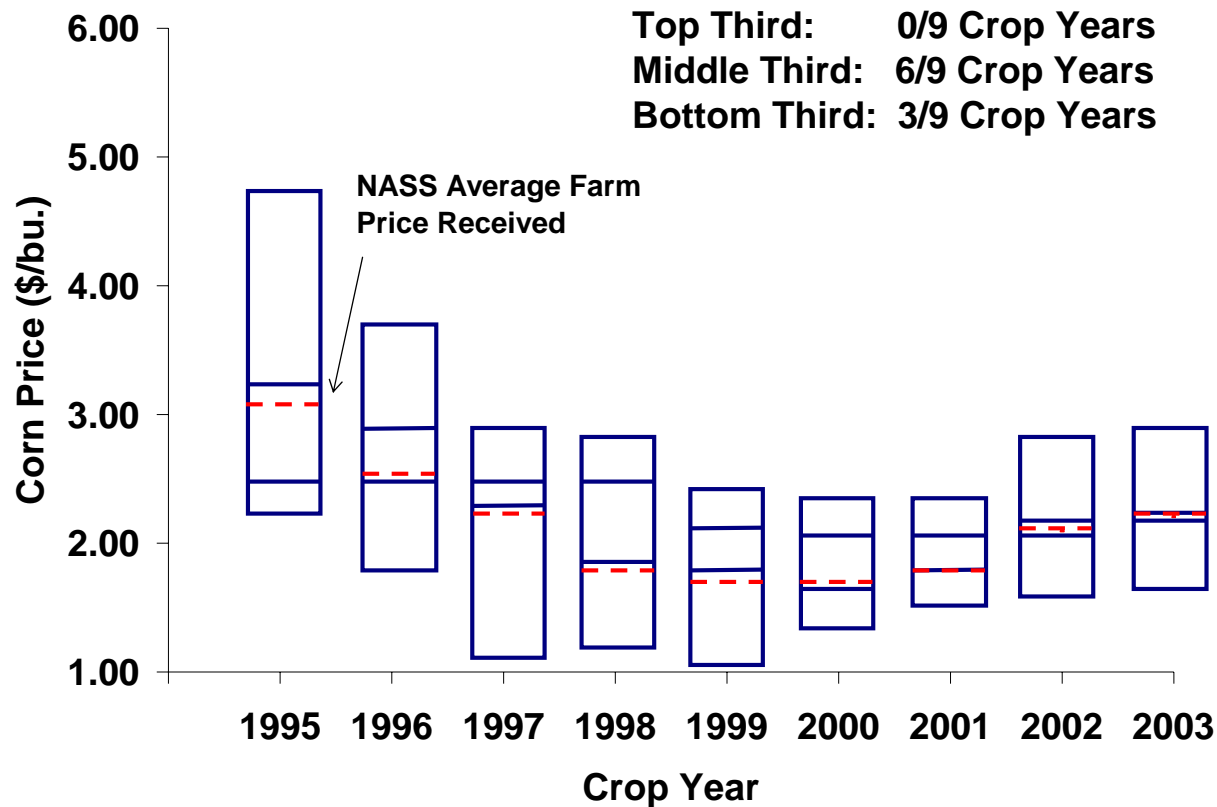
Note: LDP/MLG benefits not included.

Price Range for Corn, 1995-2003 Crop Years, Central Illinois



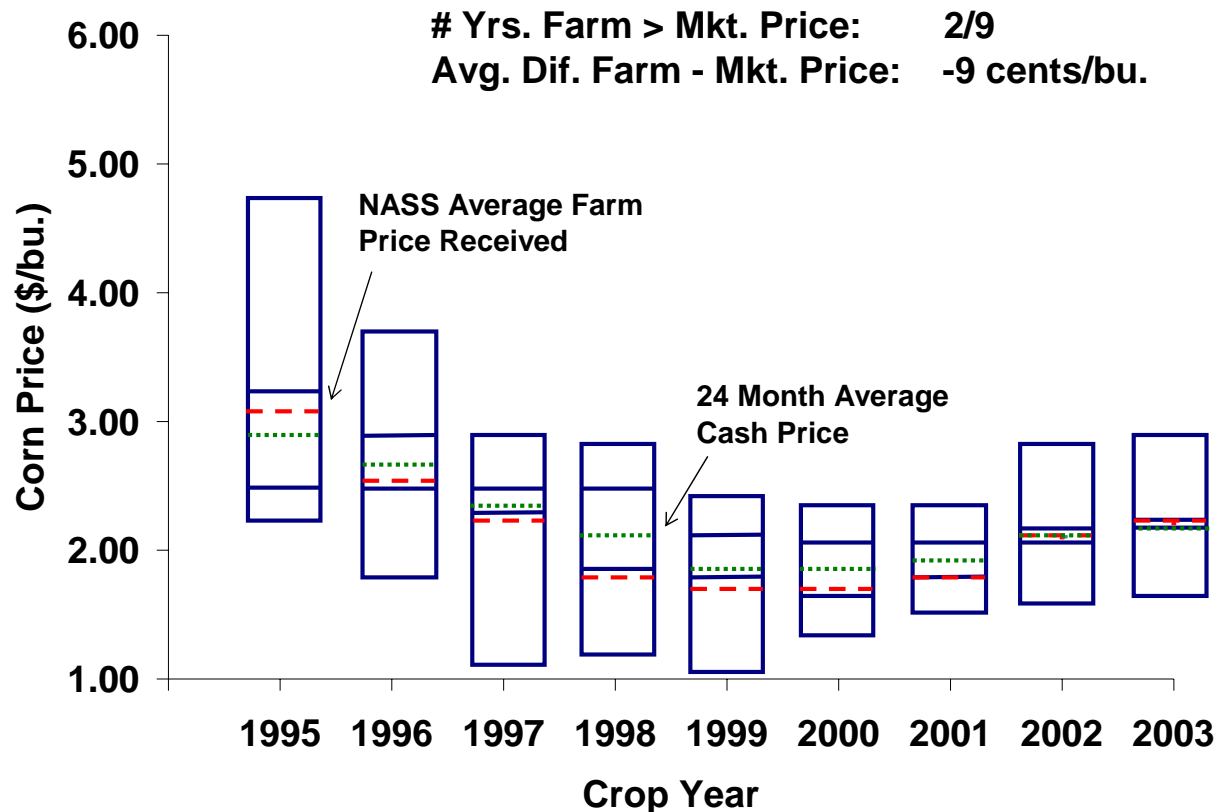
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Price Range for Corn, 1995-2003 Crop Years, Central Illinois



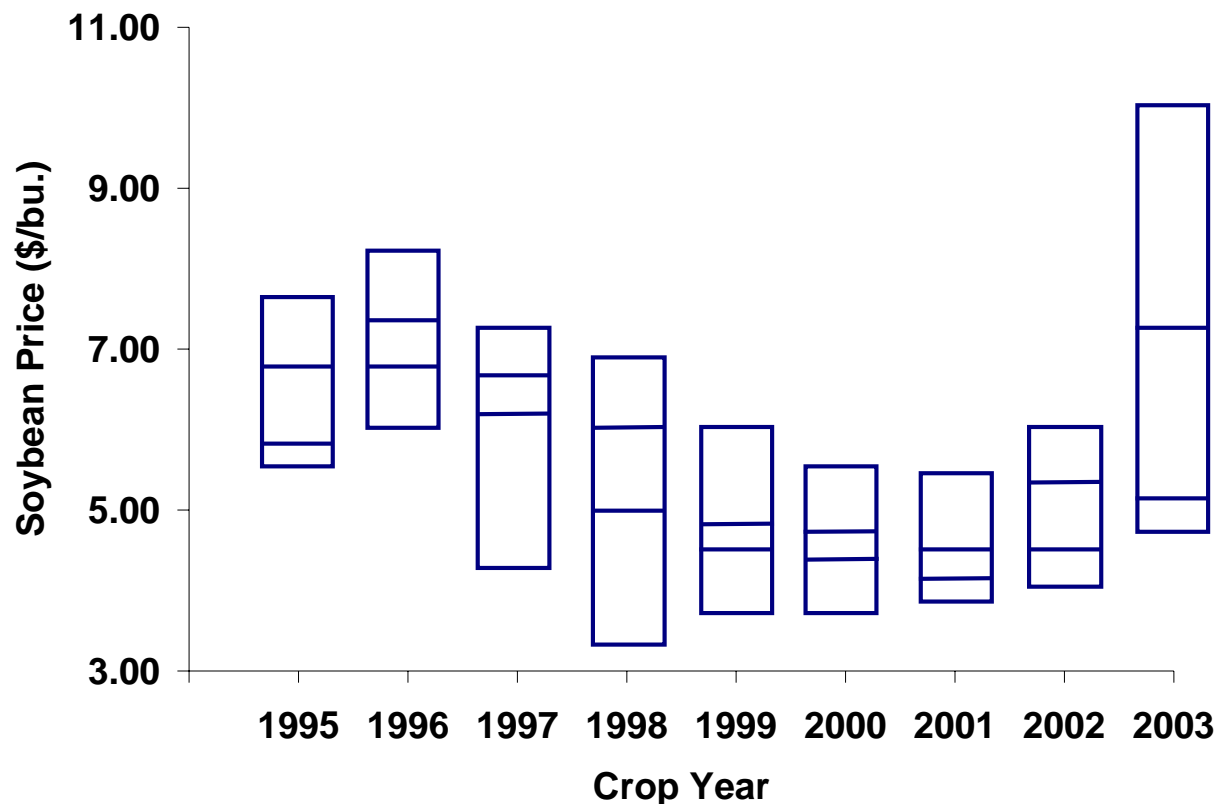
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Price Range for Corn, 1995-2003 Crop Years, Central Illinois



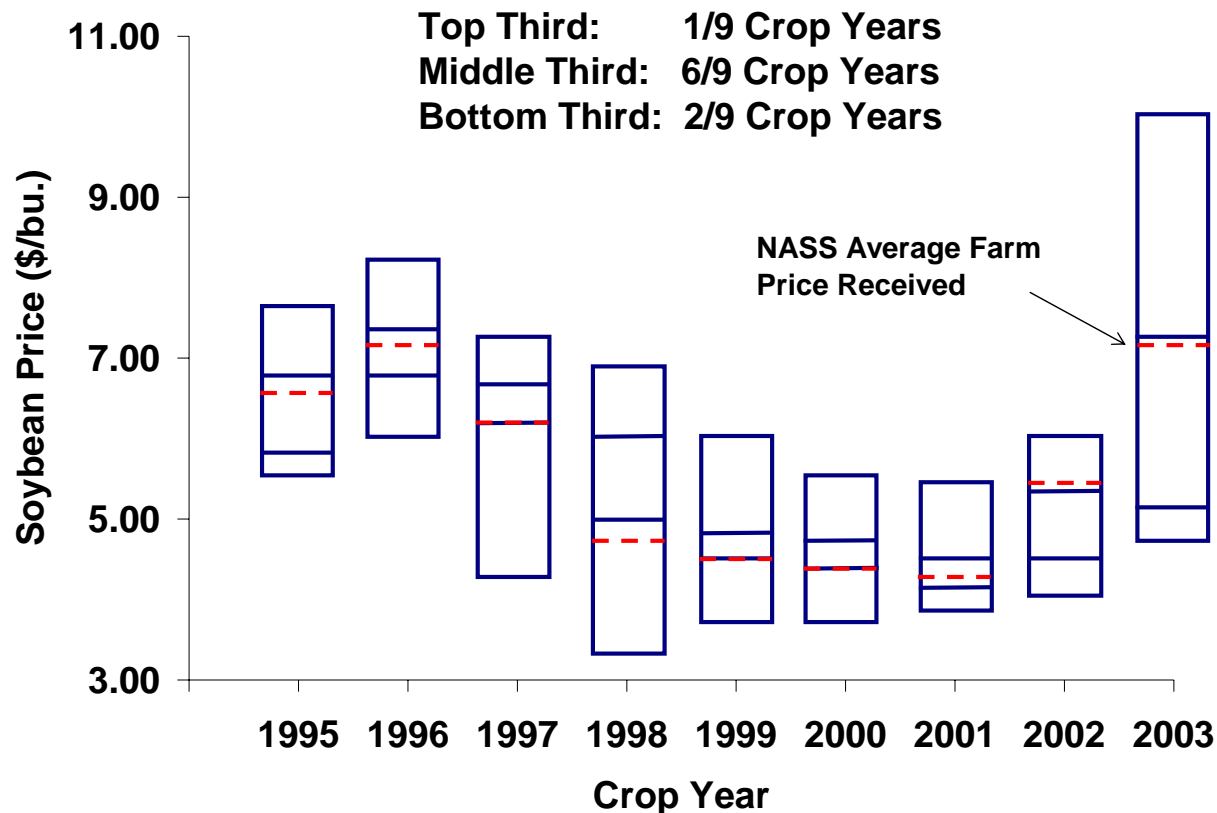
Note: LDP/MLG benefits not included.

Price Range for Soybeans, 1995-2003 Crop Years, Central Illinois



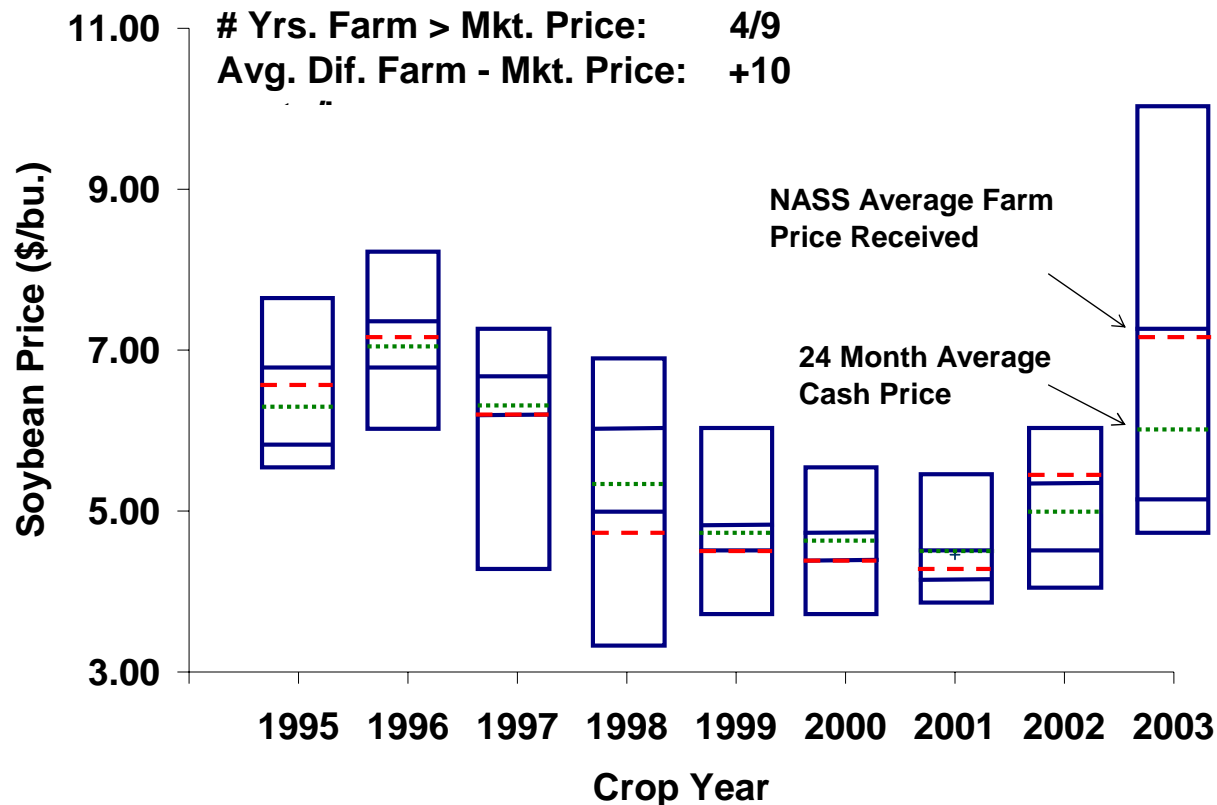
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Price Range for Soybeans, 1995-2003 Crop Years, Central Illinois

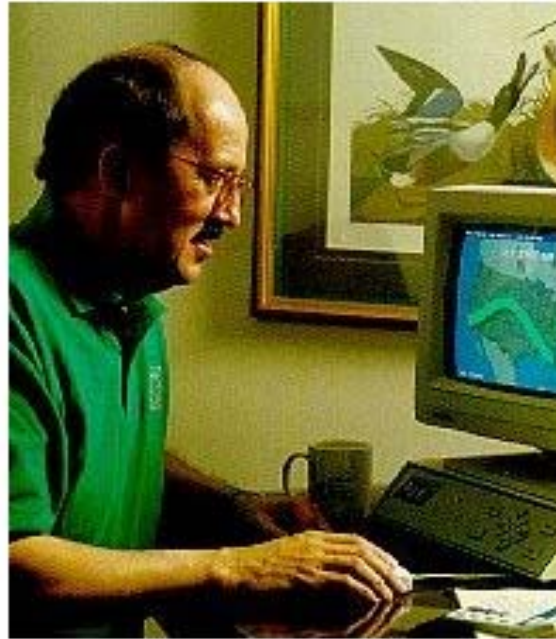


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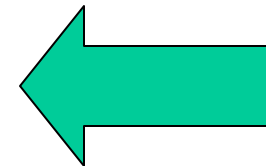
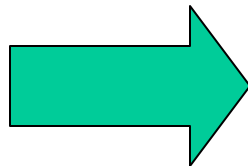


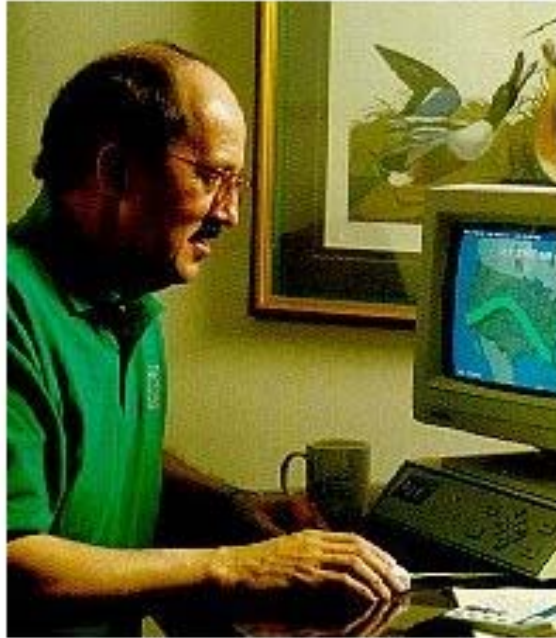
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WHAT CAN DTN AgDaily DO FOR YOU?

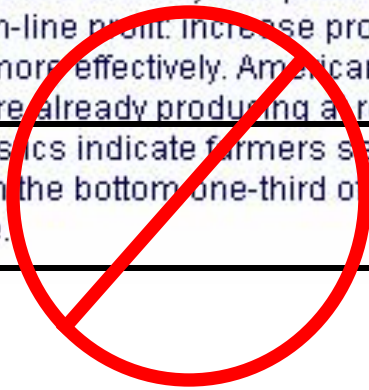
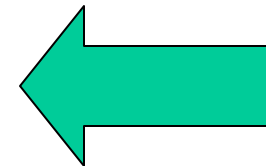
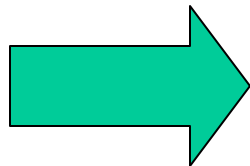
Today, there are two ways for producers to increase their bottom-line profit: increase production efficiency or market more effectively. American farmers and ranchers are already producing at record levels... but USDA statistics indicate farmers sell two-thirds of their crop in the bottom one-third of the crop's annual price range.





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A Farmer's Perspective

"If there's anything I've learned in the past 30 years of studying and marketing grain, it's this: Even with the right marketing plan and advisories, the critical calls to price grain are often not made."

---Top Producer, December 2001

Potential Psychological Mistakes in Marketing

- Anchoring
- Loss aversion and regret
- Fallacy of small numbers
- Overconfidence
- Hindsight bias

Avoiding Psychological Mistakes in Marketing

- Focus on whole farm profits, not individual pricing decisions
- Focus on results over a large number of years
- Consider automated pricing strategies that cannot be reversed

New Generation Grain Marketing Contracts

- Contracts follow defined rules for generating sales
- Goal is to achieve a price near or above the average price offered by the market over a given time

Three Basic Types of New Generation Contracts

1. Automated pricing rules
2. Managed hedging
3. Combination of the first two

Averaging Contract

- Most basic form of automated pricing rule contracts
- Average price over some pre-specified time window
 - Average futures price, you set basis, or
 - Average a local cash price
- With some exceptions, focus on pre-harvest pricing windows

Motivation for Averaging Contracts

- Provide discipline to make systematic sales
- Finding that professionals and farmers have a tough time beating the market
- Consistent with idea of efficient markets (stock index funds)

More Complex Forms of Automated Pricing Rule Contracts

- Loan-rate provision
- Only sell on down days
- Establish minimum, maximum price or both
- Vary proportion sold by month
- Sell only when pre-specified targets are reached

Managed Hedging Contracts

- Bushels committed to contract are hedged according to the recommendations of a market advisory service
- Advisor may use a variety of instruments, including futures, options or forward contracts
- May include a minimum futures price

Combination Contracts

- An automated pricing contract plus share of professional's hedging profits
 - Average price contract most typical
- May include a minimum futures price
- In addition to a service charge, may include additional incentive for professional
 - Example: if hedge in top third of price range, professional earns additional fee