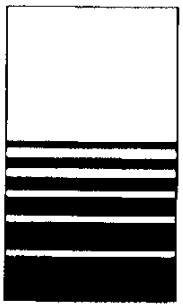

BUSINESS MANAGEMENT IN AGRICULTURE

A joint project of the Cooperative Extension Service, Farm Credit and Chicago Mercantile Exchange

Marketing Strategy for Grain

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A marketing strategy for grain

A Marketing Strategy for Grain

- calculating production costs
- evaluating price objectives
- consequences
- six-step strategy
- determining price objectives
- net price level and price risk
- reevaluation

This is one module of the *Agricultural Marketing* series and is intended to be used with its corresponding videotape. The script may vary from the actual videotape text.

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He is a former Professor of Agricultural Economics at the University of Wisconsin-River Fall, grain marketing specialist for the University of Missouri at Columbia, Missouri and farm records administrator for the Production Credit Association of River Falls, Wisconsin.

Cantlon holds an MS degree in Agricultural Economics from the University of Wisconsin at Madison and has done graduate work beyond the Masters level.

Purpose

The purpose of this unit, "A Marketing Strategy For Grain", you will be able to:

1) calculate costs of production for crops produced.
2) describe three different levels of price objectives and evaluate their commodity production costs in relation to these objectives.
3) determine consequences if certain price objectives are not reached.
4) develop a strategy for marketing grain in six distinct steps.
5) determine realistic annual and intermediate range price objectives for specific operations.
6) identify the net price level and price risk associated with each pricing alternative.
7) describe the need for regular reevaluation of their marketing plan.

Video Time: 31:45
March 1985

Successful Farmers will have:

- **Marketing expertise**
- **Integrated production/marketing plan**
- **Production/marketing strategy**

Pricing Plan Components

Farm Financial Information	Market Information	Personal Information
Farm Goals	Supply & Demand	Risk Attitude
Financial History	Stage of Cycle	Risk Ability
Cash Flow Needs	Price Predictions	Speculative Urge
Product Price Needs	Price Probability	

Video script

By Pat Cantlon

Hi, I'm Pat Cantlon. In the "marketing alternatives," videotape price risk was identified as the major undealt with risk for farmers in the U.S. That is likely to continue. Also, the upgrading of better price risk management skills was shown to be crucial to farmers and that the practice of risk management is going to vary depending on the financial position of the farm business and the personality of the farm family.

Events at the national level during the early months of 1985 lead me to believe even more strongly that the farmers who will survive and prosper during the decade ahead will have acquired or will hire marketing expertise, will have an integrated production/marketing plan, and will have a production/marketing strategy. This strategy will include detailed cost information and a range of price objectives that interact with short to intermediate term price forecasts to sharply reduce the possibility of a marketing catastrophe. Recall that a marketing catastrophe occurs when the selling price of the commodity is so low that it threatens the financial survival of the farm business.

I believe during the next ten years some very basic changes in farm policy are going to happen no matter which administration is in power. A change toward a more market oriented farm policy is not going to happen overnight but it is nearly inevitable. It is going to be phased in gradually and along the way there is going to be controversy. The changes, as they occur, will have a very important and direct effect on all commercial sized farms in the U.S. The farmers that will most successfully weather the changes will be those that recognize the new management skills that a market oriented farm policy will demand. They will use the transition period to acquire the skills and to implement an integrated production/marketing strategy to better deal with the greater price risk inherent in such a 'market oriented' environment.

The production/marketing strategy I refer to will consist of several important components which contribute to establishing price objectives and a pricing plan. First, there is farm financial information, goals of the farm family, historical production facts and the cash flow and product prices needed to meet their goals. Second there is market information, supply and demand conditions, stage of the production cycle, price level predictions and the probability of the prices being realized. Finally, there is a need for information about the family's attitudes toward and ability to personally manage price risk.

The purpose of this and the following unit is to present examples of the development, periodic evaluation and implementation of an integrated and interactive production/marketing strategy. The strategy is complex, because the topic being dealt with, pricing and price behavior is complex. The strategy is dynamic because markets are dynamic. The strategy is written because it is only after you have developed a written production/marketing plan that you can regularly go back and evaluate its continuing validity. The strategy is workable. That doesn't mean it is going to be easy to develop, implement and control; however, the potential rewards of having in place a workable written strategy are enormous, and so are the penalties of not having one. The examples of production/marketing strategies presented here are by no means in final form. They are and will remain evolutionary, and in all cases need to be tailored to the individual farm.

Before going on to look in detail at an example of a grain marketing strategy, I want to identify some areas where production/marketing decision problems seem to regularly occur. If a strategy is to be successful it must address these areas. The most common one is the failure to integrate production and marketing decisions. Marketing decisions are left far too often until they become almost an afterthought. Another problem is inadequate production and financial records. Without adequate records it is difficult to develop the detailed enterprise and cash flow budgets that help define price objectives. Also, there is not a solid understanding by farmers of price behavior in essentially open supply and demand driven agricultural markets. A result is that many farmers fail to appreciate the level of price and financial risk they assume. In addition, farmers are quite often too optimistic about possible price goals and price improvement. This leads to a failure to take full advantage of favorable price levels when they are available in the market, and to misleading analysis of the downside price protection offered by government programs. Finally, there is less than satisfactory execution of marketing intentions. This comes about due to not having a written marketing plan or failure to re-evaluate marketing intentions in light of changing information. Better use needs to be made of market tools such as standing orders with merchandisers that are automatically filled at pre-determined price objectives.

Steps in a Production Marketing Plan

1. Production Plan
2. Managing Production Risk
3. Managing Price/Financial Risk
4. Marketing Alternatives Available
5. Sources of Market Information
6. Marketing Strategy

Production Marketing Plan
1985

Commodity - *Corn*
Date - *Jan 16, 1985*
3-5 yr. Planning Price -
$2.80 - 3.00 -River
Annual Planning Price -
$2.55 - 2.60 - River

Let's look more closely at an actual production/marketing plan. I will discuss the following six steps in its development:

1) Production plan
2) Managing production risk
3) Managing price/financial risk
4) Marketing alternatives available
5) Sources of market information
6) Marketing strategy

A marketing strategy, to be successful, must support the development and implementation of a marketing plan.

I am going to use as an example, a production/marketing plan for 1985 crop corn for West Central Wisconsin, the area served by the River Falls PCA. At the top we see the commodity is specified and the date the plan was established. I've chosen corn but it could be any commodity you produce. A location and time specific three to five year planning price is identified.

This intermediate term planning price is for harvest delivery to an elevator on the Mississippi River in West Central Wisconsin.

Defining and using an intermediate term planning price is critical. It is the average price the producer can expect to receive for the commodity over that period. The intermediate term planning price originates and is independent of any individual farm business. The farmer's management challenge is to make his farm business work with the expectation of receiving, on the average, this price for the intermediate period.

Immediately below the intermediate price is an annual planning price. Again, it must be location and time specific. It also originates and is independent of any individual farm business. This annual planning price defines the price level at which pricing commitments for this year's crop will begin to be made. In this case it is $2.55-$2.60 at a River Elevator.

The annual planning price is NOT a prediction of the price that river elevators in West Central Wisconsin will be paying for corn during harvest in the Fall of 1985. It is a **judgment weighted** forecast on January 16, 1985 of the best price bid that has a high probability of being available for harvest delivery of corn to a river elevator during the **initial 3-4 months** of the 1985 corn crop pricing period. Since it is a forecast that is derived from supply and use information and given that markets and politics are dynamic and change daily, the annual planning price needs to be re-evaluated and updated regularly - at least every 3-4 months.

Both the intermediate term and annual planning prices must be defined and chosen carefully. Sources of information to help define these planning prices are market outlook and policy meetings sponsored by land grant universities, extension services and others. I want to emphasize that these planning prices are critical. They have to be location and time specific, and above all, they must be realistic. They must have a high probability of being realized in the marketplace.

Production plan

The production plan gathers some basic yield, acres, farm storage and ASCS yield information. Items A through D are self-explanatory. Item E is the number of bushels you expect to raise given your acreage and five year yield - 150 acres x 100 bushels = 15,000 bu. Item F is the amount of farm storage - 8,000 bu - allocated to this crop. G and H will apply only to crops that qualify for a price support program. Item I becomes very important for crop years when a reduction from program base acres is required to qualify for target price protection and non-recourse commodity loans. 1985 was such a year for corn. In a few minutes, you will have a chance to work through a supplementary worksheet to see how that price guarantee of $2.79 per bu. is calculated.

1. Production Plan

A. 5 yr. Avg. Yld.	100 bu/ac
B. 10 yr. High	120 bu/ac.
C. 10 yr. Low	65 bu/ac.
D. Acres this yr.	150 ac.
E. Expected Crop	15,000 bu.
F. Storage	8000 bu.
G. A.S.C.S. Yield	95 bu/ac.
H. Gov. Base Acres	150 ac.
I. Gov. Price Guar.	2.79/bu.

Managing production risk

Some basic information is established here about how production risks associated with hail, drought and other natural disasters will be managed. An "other" category is available for information specific to a particular farm.

2. Managing Production Risk

A. Hail Ins.	Yes $300/ac.
B. Irrigation	No
C. M/P Crop Ins.	No
D. Other	Super Fert. Prog.

Managing price risk

This part of the plan establishes some information about managing price and financial risk. With Item A, a survival price, we are a bit premature. We will be looking at a detailed enterprise budget later and will see then how a survival price is defined. A sound production/marketing strategy will spread the pricing decision(s) over an extended time period. This requires separation of the pricing and delivery functions. Part of the crop may be priced 16-18 months before it is delivered. I think of the pricing period for crops as running from approximately January of the calendar crop year through May or June of the following year, a 17-18 month period. There are exceptions to this, however. Item C is important. In order to facilitate pricing decisions as much as 4-5 months before the crop is planted, the marketing plan identifies a maximum quantity that can

3. Managing Price Risk

A. Survival Price	2.71/bu.
B. Gov. Program?	Yes
C. Max. Quan. Priced	6000 bu.
D. Max. Quan. to Price by:	
June 1	8000 bu.
July 1	9000 bu.
Aug 1	10,000 bu.
Sept 1	12,000 bu.
Oct 1	13,000 bu.

be priced before planting - in this case 6,000 bushels. Item D identifies the the maximum quantity that can be priced at various times through the growing season, in this case, designated by five different months - June through October. There are no hard and fast guidelines about the percentage of the expected crop that can be priced before planting or at different times through the growing season. The quantities will come out of production information discussed earlier in Part 1 and the attitude of the individual farmer toward production risk. Item B indicates that the producer will participate in the 1985 feed grain program as a part of his 1985 corn production/marketing strategy.

Why did the producer in this example decide to participate in the 1985 feed grain program? To find the answer will require a set of calculations on a separate worksheet which ends up with this figure of $2.79.

This price guarantee is compared to the annual planning price of $2.55-$2.60 which you believe is achievable during the early part of the pricing period for the 1985 corn crop. The guarantee price is better than the annual planning price and the decision is made to participate in the 1985 feed grain program.

Corn Production Budget
1985
100 bu/ac.

	Example $/ac.
A. Fuel - All season	$15.00
B. Seed	17.00
C. Fert. & Chemicals	56.00
D. Drying & Transport	30.00
E. Equipment Repairs	13.00
F. Hail Ins.	5.00
G. Custom Hire	X
H. Allocated Overheads	14.00
I. Op. Capital - Int.	11.00
J. Mach. Loan Princ. & Int.	X
K. Equipment Deprec.	30.00
L. Labor	20.00
M. Land Rent	60.00
N. Land Ownership Costs:	
O. - Real Estate Tax	X
P. - Principal & Int.	X
SUBTOTAL	271.00
Q. Management	22.00
R. Family Living Draw	X
TOTAL COST	293.00
$293.00/100 = $2.93/bu.	

Enterprise and cash flow budget

You will find it extremely difficult to put together a solid marketing plan unless you first put together a detailed enterprise and cash flow budget that is specific to your farm. The budget format you choose to use is not terribly important. It is important that it be accurate.

Let's now look at the detailed 1985 Corn Production Budget for 100 bu/ac corn in West Central Wisconsin. A few comments on the example budget presented. Items A through G are self explanatory. Item H, allocated overheads, is the enterprise share expressed on a per acre basis, of expenses like farm insurance, utilities, records and tax services and other general overhead expenses. Operating capital (Item I) is assumed to be tied up for an average period of six months and the interest rate charged is 14% leading to a cost of $11.00 per acre. Equipment depreciation (Item K) is an estimate of average replacement costs per acre that has to be spent annually to maintain a satisfactory line of machinery. Item L - Labor is assumed to be provided by the operator and family and is valued at $5/hour for 4 hours or $20.00/acre. Land (Item M) is charged a fair market rental value for the area. Management is paid 8% of the budget subtotal or $22.00 to give the producer a total cost of $293.00 for 100 bu. or $2.93 per bu. of corn produced. Let's give this price a title. I call it an acceptable price - a price that covers all costs. We'll see it again later. It is

Product Price Objectives
Total cost - $293.00
Cost less mgmt. ret. - $271.00
Yeild goal - 100 bu/ac.
A. Acceptable Price
B. Favorable Price
C. Survival Price

Product Price Objectives
A. Acceptable Price
293.00/100 bu. = $2.93/bu.
B. Favorable Price
C. Survival Price

critical that the budget cover all costs and be accurate. Do not depend on a generalized average budget for your area, such as the example presented, except as a guide and for comparison. Costs vary too much from farm to farm for an average budget to be reliable. Recognize that an enterprise budget is not a cash flow budget and both are needed.

Earlier when I was discussing managing price risk I mentioned a term called a "survival price" which I promised to come back to and define. It's now time to do that. In fact, it's time to discuss three different price objectives which are important to the development of a marketing plan:

1) An acceptable price objective
2) A favorable price objective
3) A survival price objective

Let's look first at "an acceptable price." An "acceptable price" is defined as the price that allows total enterprise budget expenses to be met. In the corn budget example it turned out to be $2.93/bushel based on $293.00 total cost divided by the 100 bu. expected yield. The "acceptable price" is compared to the intermediate term planning price. If the acceptable price is in the range of the intermediate planning price you are competitive in producing the commodity.

If your cash flow budget works, you should be able to earn near average returns producing the commodity. If your acceptable price is significantly greater than the intermediate planning price, you are a high cost producer and are in danger of being squeezed out unless you can restructure and reduce your costs. If your acceptable price is less than the intermediate planning price, you have a strong competitive position and should be able to do well unless your cash flow needs are excessive due to previous gambling debts or some such thing.

The presence of an acceptable price in the market usually suggests that you should strongly consider pricing a part of your crop. How aggressively you should do so depends on the near to intermediate term price forecast, and your ability and willingness to bear price risk. For example, in early 1985 when this tape was made, the intermediate term price forecast for 1985 corn was weak to possibly declining prices. In our example, if there is an opportunity to forward contract, use the futures market, or buy a corn 'put' option to guarantee a harvest delivery price of $2.55 or better. I would want to be quite aggressive, possibly up to the maximum quantity the producer is willing to price before the crop is planted or 6000 bu. The net price realized will be the forward contract price $2.55, plus an

estimated deficiency payment of 45¢, for a total of $3.00. That is more than the acceptable price and at the top of the intermediate term planning price range in what is likely to be a below average price year.

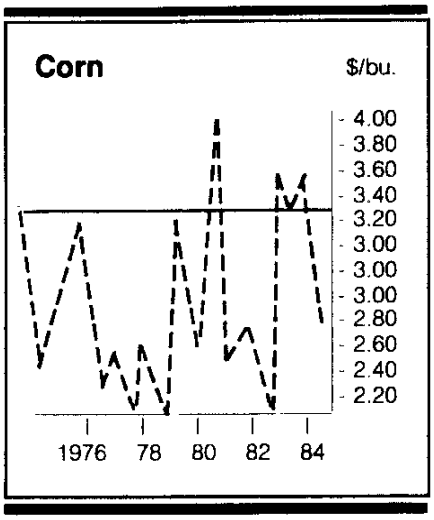
If 6,000 bu. is contracted for harvest delivery more than 40% of 1985 expected program acre production (15,000 x 92% = 13,800 bu) will have been priced. Expected production comes from the worksheet that analyzes participation in the 1985 feed grain program. That is quite an aggressive marketing posture. It is, however, a pricing decision that would make a great deal of sense to me this year. The decision is not likely to jeopardize the ability of the producer to deliver the product. He will participate in the 1985 feed grain program and will plant 135 acres of corn. His ten year low yield is 65 bu per acre. Also, he would have taken care of his need to sell cash corn at harvest or to store commercially. If his expected production of 13,800 bu. is realized, 7,800 bu. will remain after the 6000 bu. is delivered at harvest. Recall that he allocated 8000 bu. of storage to corn.

The above example illustrates the necessity to have intermediate and annual planning prices, an acceptable price objective derived from an accurate budget, and how the planning prices and price objective interact with near to intermediate term price forecasts to lead you to make a more informed pricing decision.

It is also essential that your overall marketing plan be periodically re-evaluated. I would suggest that this be done at a minimum every 3-4 months. The marketing plan for this example was drawn in mid-January. It needs to be evaluated and updated about mid-April. There are a couple of reasons for this. In this part of the country, the opening of the river after winter is quite often a time of price strength for grains and, of course, market information and price outlook has changed since mid-January. Further, mid-April is before the real busy field work and planting crunch hits. It is easier for you to find time to sit down and re-think and update your marketing plan.

I now want to define a "favorable price." A favorable price for corn is one that is 12 to 15% better than the acceptable price and that approximately **doubles** your labor and management income. In this case it would be a range of $3.28 to $3.37. Looking back at the example corn budget we see Item L labor earnings are $20/acre or 20¢ per bu. and Item Q management earnings are $22/acre or 22¢ per bu. When this 42¢ is added to the acceptable price of $2.93, we have defined a favorable price of $3.35 per bu. which is nicely within that range. In effect, you have doubled your operator labor and management draw - **your salary.** A

Product Price Objectives
A. Acceptable price
B. Favorable Price
2.93/bu. + (11-15%) = **$3.25 - 3.37/bu.**
C. Survival Price



favorable price is a pricing opportunity that cannot and should not be ignored, yet chances are, unless you have a well defined and written **Favorable Price Objective,** it will be ignored in the euphoria and unrealistic price optimism that surround and are associated with **Bull** markets.

Let's look at a long term (ten year) price chart of the monthly high, low and average price of the nearby future contract for corn. The nearby futures contract price approximates the cash price for corn delivered to Chicago. If we subtract 20¢ at harvest and 10¢ during the Spring and early Summer, we will roughly estimate the Minneapolis cash price for corn. And, if we set a price at 3.25, we can visually estimate how often - the percentage of time - clearly favorable prices are available in the market. Not very often and not for very long when they are available - about 20% of time and for a period of 20 to 22 months in a 12 month period.

The existence of a favorable price is a prompt, a demand that you become much more aggressive about your pricing decisions. It is an opportunity to average up your realized price into the top⅓ of the market. If you can, on the average, consistently price your commodities in that range of the available market price, you will have done a superior job of marketing your products. If you are a competitive producer, you will have realized profits that make managing your farm business a pleasure, not a burden.

How aggressive you become about pricing decisions will again be determined by your ability and willingness to bear price risk. If you need a favorable price to make your farm business more financially comfortable, or if you strongly prefer price and income security to price risk, you should consider pricing a large percentage of the next 1 or 2 years expected production when a favorable price is available. In order to safely accomplish such an objective, you will have to work closely with your lender to ensure financing to meet possible margin calls. In most cases, if you wish to become highly aggressive about pricing decisions, you will want to be working with a market advisor who is knowledgeable and skilled in the market mechanics of rolling future contract hedges forward over extended time periods.

Quite often, a favorable price is available in the market well before the more normal - and I hesitate to use that word - crop pricing period of 4-5 months before the crop is planted until 7-8 months after it is harvested - a pricing

period of 17-18 months. It is in these situations, when a favorable price exists and you have reason to believe it may disappear, that you may want to extend your pricing period to nearly a year before the crop is planted to 7-8 months after it is harvested. In this situation, if you have confidence in your cost budgets and if you want or need the income security offered by the favorable price opportunity, go ahead and press your lender to finance the possible hedge loans that may occur. There is not a great amount of enlightenment by many agricultural lenders about the advantages and mechanics of locking in favorable prices. Chances are that if you are skilled or have a good market advisor to educate your lender, you will be doing everybody a favor.

Don't let favorable prices go by without taking full advantage of them. They occur relatively infrequently and last for short periods. They are a signal, a strong message to you, to be aggressive about making pricing decisions. Use the opportunity offered by favorable prices to average your pricing decisions into the upper ⅓ of the prices available. Don't get trapped into trying to pick the top of the market. If you happen to be lucky enough to sell a bunch at or near the top of a 'bull' market, agree to treat that as good coffee shop talk and not as a pricing goal for future years. If it ever happens, it is likely to be a once-in-a-lifetime event.

Product Price Objectives
A. Acceptable Price
B. Favorable Price
C. Survival Price
271.00/100 bu. = **$2.71/bu.**

The last of the three price objectives is a "survival price." A survival price allows you to stay in business for at least one or two more years. I regard continuing in business as the primary goal of a commercial farm. Therefore, identification of a survival price is critical. A survival price pays the operator a minimal labor draw but no return for management. It must meet business cash flow needs, a minimal draw for family living, and some principle repay on borrowed funds. The survival price identified by the enterprise budget is $271.00, total expenses less management earning, which divided by 100 bu. equals $2.71 per bu. Compliance with the 1985 feed grain program guarantees the survival price will be met. The financial protection and peace of mind offered by the survival price guarantee is a strong argument to participate. A major step has been taken toward avoiding a marketing catastrophe.

4. Market Alternatives

A. Cash Market as needed
B. Cash Forward Contracts
C. Store 8000 bu.
D. Futures Market?

5. Market Information

A. Newspapers & Radio
B. Grain Merchandisers
C. Neighbors
D. Price Outlook Mtgs.
E. Mkt. Advisory Letter

6. Marketing Plan 1/16/85

A. Gov. Programs Yes
B. Farm Storage ret. 15-20¢
C. Cash out 85 corn by 5/1
D. Pricing Plan 1/16/85

Quan. (bu.)	% Crop	Date	Price	Del
5-6000	35-40%	May 1,85	2.55-2.60	Harv
4-5000	28-35%	Aug 1,85	2.70-2.80	Spr. 86
3-4000	21-28%	Mar 1,86	2.70-2.80	Spr. 86

Once you are this far, the guts of your production/marketing strategy for 1985 is in place. Part 4 of the marketing plan identifies marketing alternatives that are available to you and that you are willing to use. In this case, a variety of cash markets and cash forward contracts with use of some on farm storage and maybe some hedging or 'put' options. You need to develop your own sources and system of local market intelligence. It is not unusual for local elevator bids to differ by several cents a bushel, and seldom does one merchandiser consistently pay the best price. Check around before making a final pricing decision. Also, be alert to highly localized marketing opportunities. For example, in parts of central Wisconsin, there is a fairly strong market for high moisture corn. You may be able to save part of the cost of drying the grain.

Part 5 identifies your sources of market information. A great variety of information flows into and is the fuel that drives markets. It is unlikely that you will be able to keep up with and distill all of it. Keep in touch with newspapers, radio, merchandisers, neighbors and maybe an outlook meeting or two. I think you need to subscribe to at least one market advisory letter that helps you interpret market news and information.

Part 6 is important. This is where you date, write out your marketing plan and pricing intentions, and add comments. It is the part of your plan that you come back to regularly to evaluate its continuing validity in light of new market information and changing near term price forecasts. In the example, the marketing plan written on January 16 indicates the producer will participate in the 1985 feed grain program. It also sets goals of earning a farm storage return of 15-20¢ per bu. and having all '85 crop corn sold by May 1, 1986. The pricing plan (Item D) establishes quantity and price goals the producer hopes to be able to execute by a certain date. For example, the first line of the pricing plan indicates an intention to price 5,000-6,000 bu. by May 1, 1985 at $2.55-$2.60 for harvest delivery. That quantity represents 35-40% of the expected crop. The second and third lines are pricing intentions for later periods, and will bring the total amount sold to the entire crop. Notice that the price objectives for the later sales include capturing a farm storage return of 15-20¢ per bu. and delivery will be the spring of 1986. There are several lines for comments, notes to yourself about steps you will take to execute your intentions and what your other observa tions and concerns were on that date.

You need to re-think your plan and pricing intentions periodically, make changes as called for by different conditions and information, and establish a revised written

Comments:
Standing order 3000 bu. at 2.55 harvest.
- Price outlook for '85 crop corn is weak
- Gov. program offsets downside price risk.
- Would like to know more about ag options.

plan. That's what the update sections of the plan are all about. You may also need to update and revise market tools used to execute your plan. For example, a standing order with a merchandiser to automatically price 3000 bu if a $2.55 harvest delivery price becomes available may need to be changed.

Why do all this? It looks like and it is hard work. As I've said, the potential rewards of having in place a workable, written marketing strategy are enormous, and so are the penalties of not having one. Loren Kruse, Managing Editor in the February, 1985 issue of **Successful Farming** says it in another way and so well.

To quote:

> "This is the time of year when many farmers go to outlook meetings. Marketing experts tell about a weakening dollar, iffy South American crops, improving demand and seasonal trends. Then they present a marketing plan for capturing the spring-summer rallies. The plan includes three or four specific price goals and selling a percentage of your crop as each target is hit.
>
> Farmer-wife teams dutifully write down the plan, vowing not to repeat the marketing mistakes of last year.
>
> You know what happens next. Prices indeed rally in the spring and run up to the first target.
>
> What will you do? Probably nothing. "Why sell anything here," you'll easily convince yourself, "as strong as this market is, I'll sit tight and wait for at least the third objective and really make some money."
>
> The winter plan - which seemed almost too much to hope for while prices were frozen low - is forsaken in the spring thaw."

End of quote.

Appendix A

PRODUCTION/MARKETING PLAN 1985

Commodity: **CORN**
Date: **1/16/85**

3 - 5 Year Planning Price **$2.80-3.00 River Harvest**
Annual Planning Price **$2.55-2.60 -River-Harvest**

1. Production Plan
   - A. 5-Year Average Yield — **100 Bu./Ac.**
   - B. 10-Year High Yield — **120 Bu./Ac.**
   - C. 10-Year Low Yield — **65 Bu./Ac.**
   - D. Acres This Year — **150 Ac.**
   - E. Expected Crop This Year — **15,000 Bu.**
   - F. Farm Storage For This Crop — **8,000 Bu.**
   - G. ASCS Yield — **95 Bu./Ac.**
   - H. Government Program Base Acres — **150 Ac.**
   - I. Government Program Price Guarantee — **$ 2.79 Bu.**
2. Managing Production Risk
   - A. Hail Insurance — **Yes - $300/ac**
   - B. Irrigation — **No**
   - C. Multi-Peril Crop Insurance — **No**
   - D. Other — **Superior fertility prog.**
3. Managing Price/Financial Risk
   - A. Survival Price — **$ 2.71 Bu.**
   - B. Participate In Government Program — **Yes**
   - C. Maximum Quantity Willing To Price Before Crop Is Planted **6,000 Bu.**
4. D. Maximum Quantity Willing To Price By:
   - June 1 **8,000 Bu.**; July 1 **9,000 Bu.**; Aug. 1 **10,000 Bu.**
   - Sept. 1 **12,000 Bu.**; Oct. 1 **13,000 Bu.**

Appendix A (cont.)

1985 CORN PRODUCTION BUDGET
100 Bu./Ac.

	Example $/Ac.	Your Budget	Farm Cash Flow[1]
A. **Fuel:** Tillage, Planting Harvest (12 gal. x 1.25)	$ 15.00	$_____	$_____
B. Seed (3-2/3 Ac./Bag)	17.00	_____	_____
C. Fertilizer and Chemicals	56.00	_____	_____
D. Drying and Transport	30.00	_____	_____
E. Equipment Repairs	13.00	_____	_____
F. Hail Insurance ($300/Ac. x $1.70)	5.00	_____	_____
G. Custom Hire	x	_____	_____
H. Allocated Overheads	14.00	_____	_____
I. Interest-Operating Capital ($150 x 7%)	11.00	_____	_____
J. Machine Loan Principal and Interest	x	x	_____
K. Equipment Depreciation	30.00	_____	_____
L. Labor (4 hrs. x $5/hr.)	20.00	_____	_____
M. Land Rent or Rental Value	60.00	_____	_____
N. Land Ownership Costs:			
O. - Real Estate Tax	x	x	_____
P. - Principal and Interest	x	x	_____
Subtotal	$271.00	$_____	$_____
Q. Management (8% of Subtotal)	22.00	_____	x
R. Family Living Draw	x	x	_____
TOTAL	**$293.00**	$_____	$_____

Acceptable Price = $293 ÷ 100 Bu.	$2.93/Bu.	$_____ Bu.	$_____ Bu.
Favorable Price = $2.93/Bu. + 11-15%	$3.25-3.37/Bu.	$_____ Bu.	$_____ Bu.
Survival Price = $271 ÷ 100	$2.71/Bu.	$_____ Bu.	$_____ Bu.

[1] For the farm cash flow: If the land is rented, use the rental paid and eliminate real estate tax and land principal and interest; if the land is owned, eliminate rental value and use real estate tax paid and land principal and interest.

[2] These are only example budgets and must be revised and updated for your particular area.

Appendix A (cont.)

4. Marketing Alternatives Available
   - A. **Four cash markets locally available**
   - B. **Merchandisers offer cash forward contracts**
   - C. **Store at harvest - 8,000 bu.**
   - D. **Futures market and 'put' options**

5. Sources of Market Information
   - A. **Ag newspapers and radio/TV**
   - B. **Grain merchandisers and neighbors**
   - C. **A couple price outlook/planning meeting**
   - D. **Market advisory letter**

6. Marketing Plan — Date **1/16/85**
   - A. Participate in Government Program **Yes**
   - B. **Earn a farm storage return of 15-20¢/bu.**
   - C. **Cash out all '85 crop corn by May 1, 1986**
   - D. Pricing Plan — Date **1/16/85**

Quantity	% Of Exp. Crop			Date		Price		Delivery
5-6,000 bu.,	35-40	%	Priced by	May 1 85	at	2.55 - 2.60	for	Harvest
4-5,000 bu.,	28-35	%	Priced by	Aug 1 85	at	2.70 - 2.80	for	Spring 86
3-4,000 bu.,	21-28	%	Priced by	Mar 1 86	at	2.70 - 2.80	for	Spring 86
_____ bu.,	_____	%	Priced by	_____	at	_____	for	_____
_____ bu.,	_____	%	Priced by	_____	at	_____	for	_____

Comments: **Place standing order with coop to price 3,000 bu at 2.55 and 3,000 bu. at 2.60 for harvest delivery.**

- **Price outlook for 85 crop corn is weak**
- **Important to keep in touch with near term price developments**
- **Gov't program offsets downside price risk**
- **Would like to know more about ag options**

Appendix A (cont.)

Pricing Plan - Update #_____ Date _____

Quantity	% Of Exp. Crop		Date		Price		Delivery
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____

Comments: _____

Pricing Plan - Update #_____ Date _____

Quantity	% Of Exp. Crop		Date		Price		Delivery
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____

Comments: _____

Appendix A (cont.)

LOCALIZING YOUR PRICE GUARANTEE UNDER THE 1985 FEED GRAIN PROGRAM

1.	A. Your 5-Year Average Yield		**100 Bu./Ac.**
	B. Your ASCS Yield		**95 Bu./Ac.**
	C. Your Program (base) Acres		**150 Ac.**
	D. Expected Program Acre Production (A x C)		**15,000 Bu.**
2.	National Target Price		$3.03 Bu.
	A. National Loan Rate	**$2.55 Bu.**	
	B. Your County Loan Rate	**$2.44**	
		- .11 Bu.	**.11 Bu.**
3.	A. Price Guarantee on 90% of ASCS Acres and Production		**$ 2.92 Bu.**
	B. Price Guarantee on Expected Program Acre Production		
	Answer 3A x ___?___ %[1]		
	2.92 x 92 %		**$ 2.69 Bu.**
4.	A. Ratio of 1B ÷ 1A = **? %**		
	95 ÷ 100 = 95 %		
	B. Estimated 1985 Deficiency Payment x Answer 4A minus the Estimated 1985 Deficiency Payment[2]		
	(95% x .47) - .47 = $ .024		**- .02 Bu.**
5.	A. Variable Cost Saved on Set Aside Acres		**$ 2.67 Bu.**
	15 Ac. x 125 $/Ac. = $ 1,875.00		
	B. Answer 5 A divided by Expected Program Acre Production		
	$1,875 ÷ 15,000 Bu. = $ .125 Bu.		**+ .12 Bu.**
6.	Localized Price Guarantee on Expected Program Acre Production		**$ 2.79 Bu.**

[1] If acres set aside are as productive as acres planted, the percentage will be 90%--if less productive, the percentage will be more than 90%.

[2] USDA estimates the 1985 deficiency payment will be $.47 per Bu.

Production/marketing plan - worksheet

Name: _____

Commodity: _____ 3 - 5 Year Planning Price _____

Date: _____ Annual Planning Price _____

*Note: Please use the accompying crop production worksheets to complete the production/marketing plan.

1. Production Plan
   - A. 5-Year Average Yield _____ Bu./Ac.
   - B. 10-Year High Yield _____ Bu./Ac.
   - C. 10-Year Low Yield _____ Bu./Ac.
   - D. Acres This Year _____ Ac.
   - E. Expected Crop This Year _____ Bu.
   - F. Farm Storage For This Crop _____ Bu.
   - G. ASCS Yield _____ Bu./Ac.
   - H. Government Program Base Acres _____ Ac.
   - I. Government Program Price Guarantee $_____ Bu.
2. Managing Production Risk
   - A. Hail Insurance _____
   - B. Irrigation _____
   - C. Multi-Peril Crop Insurance _____
   - D. Other _____
3. Managing Price/Financial Risk
   - A. Survival Price $_____ Bu.
   - B. Participate In Government Program _____
   - C. Maximum Quantity Willing To Price Before Crop Is Planted _____ Bu.
   - D. Maximum Quantity Willing To Price By:

     June 1 _____ Bu.; July 1 _____ Bu.; Aug. 1 _____ Bu.

     Sept. 1 _____ Bu.; Oct. 1 _____ Bu.

Production/marketing plan - worksheet (cont.)

4. Marketing Alternatives Available
   - A. _____
   - B. _____
   - C. _____
   - D. _____
5. Sources of Market Information
   - A. _____
   - B. _____
   - C. _____
   - D. _____
6. Marketing Plan Date _____
   - A. Participate in Government Program _____
   - B. _____
   - C. _____
   - D. Pricing Plan Date _____

Quantity	% Of Exp. Crop		Date		Price		Delivery
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____

Comments: _____

Production/marketing plan - worksheet (cont.)

Pricing Plan - Update #_____ Date _____

Quantity	% Of Exp. Crop		Date		Price		Delivery
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____

Comments: _____

Pricing Plan - Update #_____ Date _____

Quantity	% Of Exp. Crop		Date		Price		Delivery
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____
_____ bu.,	_____	% Priced by	_____	at	_____	for	_____

Comments: _____

Corn production budget - worksheet

100 Bu./Ac.

	Example $/Ac.	Your Budget	Farm Cash Flow[1]
A. **Fuel:** Tillage, Planting Harvest (12 gal. x 1.25)	$ 15.00	$_____	$_____
B. Seed (3-2/3 Ac./Bag)	17.00	_____	_____
C. Fertilizer and Chemicals	56.00	_____	_____
D. Drying and Transport	30.00	_____	_____
E. Equipment Repairs	13.00	_____	_____
F. Hail Insurance ($300/Ac. x $1.70)	5.00	_____	_____
G. Custom Hire	x	_____	_____
H. Allocated Overheads	14.00	_____	_____
I. Interest-Operating Capital ($150 x 7%)	11.00	_____	_____
J. Machine Loan Principal and Interest	x	x	_____
K. Equipment Depreciation	30.00	_____	_____
L. Labor (4 hrs. x $5/hr.)	20.00	_____	_____
M. Land Rent or Rental Value	60.00	_____	_____
N. Land Ownership Costs:			
O. Real Estate Tax	x	x	_____
P. - Principal and Interest	x	x	_____
Subtotal	$271.00	$_____	$_____
Q. Management (8% of Subtotal)	22.00	_____	x
R. Family Living Draw	x	x	_____
TOTAL	**$293.00**	$_____	$_____

Acceptable Price = $293 ÷ 100 Bu.	$2.93/Bu.	$_____Bu.	$_____Bu.
Favorable Price = $2.93/Bu. + 11-15%	$3.25-3.37/Bu.	$_____Bu.	$_____Bu.
Survival Price = $271 ÷ 100	$2.71/Bu.	$_____Bu.	$_____Bu.

[1] For the farm cash flow: If the land is rented, use the rental paid and eliminate real estate tax and land principal and interest; if the land is owned, eliminate rental value and use real estate tax paid and land principal and interest.

[2] These are only example budgets and must be revised and updated for your particular area.

Soybean production budget - worksheet

35 Bu./Ac.

	Example $/Ac.	Your Budget	Farm Cash Flow[1]
A. **Fuel:** Tillage, Planting Harvest (5 gal. x 1.25)	$ 6.25	$_____	$_____
B. Seed	12.00	_____	_____
C. Fertilizer and Chemicals	38.00	_____	_____
D. Transport	10.00	_____	_____
E. Equipment Repairs	13.00	_____	_____
F. Hail Insurance ($200/Ac. x $2.50)	5.00	_____	_____
G. Custom Hire	x	_____	_____
H. Allocated Overheads	14.00	_____	_____
I. Interest-Operating Capital ($98 x 7%)	7.00	_____	_____
J. Machine Loan Principal and Interest	x	x	_____
K. Equipment Depreciation	30.00	_____	_____
L. Labor (2 hrs. x $5/hr.)	10.00	_____	_____
M. Land Rent or Rental Value	60.00	_____	_____
N. Land Ownership Costs:			
O. - Real Estate Tax	x	x	_____
P. - Principal and Interest	x	x	_____
Subtotal	$205.00	$_____	$_____
Q. Management (8% of Subtotal)	16.00	_____	x
R. Family Living Draw	x	x	_____
TOTAL	**$221.00**	$_____	$_____

Acceptable Price = $221 ÷ 35 Bu.	$2.93/Bu.	$_____ Bu.	$_____ Bu.
Favorable Price = $6.31/Bu. + 11-15%	$7.00-7.26/Bu.	$_____ Bu.	$_____ Bu.
Survival Price = $205 ÷ 35	$5.86/Bu.	$_____ Bu.	$_____ Bu.

[1] For the farm cash flow: If the land is rented, use the rental paid and eliminate real estate tax and land principal and interest; if the land is owned, eliminate rental value and use real estate tax paid and land principal and interest.

[2] These are only example budgets and must be revised and updated for your particular area.

Hard red spring wheat production budget - worksheet

45 Bu./Ac.

	Example $/Ac.	Your Budget	Farm Cash Flow[1]
A. **Fuel:** Tillage, Planting Harvest (5 gal. x 1.25)	$ 6.25	$_____	$_____
B. Seed (2 bu./ac. @ $5)	10.00	_____	_____
C. Fertilizer and Chemicals	40.00	_____	_____
D. Transport	10.00	_____	_____
E. Equipment Repairs	13.00	_____	_____
F. Hail Insurance ($200/Ac. x $3.00)	6.00	_____	_____
G. Custom Hire	x	_____	_____
H. Allocated Overheads	14.00	_____	_____
I. Interest-Operating Capital ($97 x 7%)	7.00	_____	_____
J. Machine Loan Principal and Interest	x	x	_____
K. Equipment Depreciation	30.00	_____	_____
L. Labor (1½ hrs. x $5/hr.)	7.50	_____	_____
M. Land Rent or Rental Value	50.00	_____	_____
N. Land Ownership Costs:			
O. - Real Estate Tax	x	x	_____
P. - Principal and Interest	x	x	_____
Subtotal	$194.00	$_____	$_____
Q. Management (8% of Subtotal)	16.00	_____	x
R. Family Living Draw	x	x	_____
TOTAL	**$210.00**	$_____	$_____

Acceptable Price = $210 ÷ 45 Bu.	$4.67/Bu.	$_____ Bu.	$_____ Bu.
Favorable Price = $4.67/Bu. + 11-15%	$5.18-5.38/Bu.	$_____ Bu.	$_____ Bu.
Survival Price = $194 ÷ 45	$4.31/Bu.	$_____ Bu.	$_____ Bu.

[1] For the farm cash flow: If the land is rented, use the rental paid and eliminate real estate tax and land principal and interest; if the land is owned, eliminate rental value and use real estate tax paid and land principal and interest.

[2] These are only example budgets and must be revised and updated for your particular area.

Localizing your price guarantee under the 1985 feed grain program - worksheet

1. A. Your 5-Year Average Yield _____ Bu./Ac.
   B. Your ASCS Yield _____ Bu./Ac.
   C. Your Program (base) Acres _____ Ac.
   D. Expected Program Acre Production (A x C) _____ Bu.

2. National Target Price $3.03 Bu.
   A. National Loan Rate $2.55 Bu.
   B. Your County Loan Rate _____
   - _____ Bu. - _____ Bu.

3. A. Price Guarantee on 90% of ASCS Acres and Production $ _____ Bu.
   B. Price Guarantee on Expected Program Acre Production
   Answer 3A x _____?_____ %[1]
   _____ x _____ % $ _____ Bu.

4. A. Ratio of 1B ÷ 1A = ? %
   _____ ÷ _____ = _____ %
   B. Estimated 1985 Deficiency Payment x Answer 4A minus the Estimated 1985 Deficiency Payment[2]
   (_____% x _____) - _____ = _____ - _____ Bu.

5. A. Variable Cost Saved on Set Aside Acres $ _____ Bu.
   _____ Ac. x _____ $/Ac. = $ _____
   B. Answer 5 A divided by Expected Program Acre Production
   $ _____ ÷ _____ Bu. = $ _____ Bu. + _____ Bu.

6. Localized Price Guarantee on Expected Program Acre Production $ _____ Bu.

[1] If acres set aside are as productive as acres planted, the percentage will be 90%--if less productive, the percentage will be more than 90%.

[2] USDA estimates the 1985 deficiency payment will be $.47 per Bu.

Video questions

Answer the following questions by indicating whether you feel they are True (T) or False (F).

_____ 1. Predicting the cash price of a commodity is not required when evaluating the benefits of participating in government commodity programs.

_____ 2. One possibility for producers to reduce marketing risk is to sell part of the crop in several different periods of the marketing year.

_____ 3. If a producer wants to sell some of his production prior to harvest, the functions of pricing and delivering the crop must be separated.

_____ 4. If a producer wants to sell some of his production after harvest, the functions of pricing and delivering the crop must be separated.

_____ 5. If a futures price is equal to the current cash price plus the cost of carrying the commodity in inventory, a farmer can expect to realize no gain or loss from hedging the commodity.

_____ 6. The intermediate term planning price can be influenced by the individual farm.

_____ 7. A sound marketing plan interacts with the production.

_____ 8. Good financial records are not important in the development of a marketing plan.

_____ 9. Farmers are usually aware of the level of price and financial risk they assume.

_____ 10. Farmers readily carry out their marketing intentions and plans.

Video questions - key

Answer the following questions by indicating whether you feel they are True (T) or False (F).

T_____ 1. Predicting the cash price of a commodity is not required, but helpful, when evaluating the benefits of participating in government commodity programs.

T_____ 2. One possibility for producers to reduce marketing risk is to sell part of the crop in several different periods of the marketing year.

T_____ 3. If a producer wants to sell some of his production prior to harvest, the functions of pricing and delivering the crop must be separated.

F_____ 4. If a producer wants to sell some of his production after harvest, the functions of pricing and delivering the crop must be separated.

COMMENT: **False. After harvest, pricing and delivery may occur at the same time.**

F_____ 5. If a futures price is equal to the current cash price plus the cost of carrying the commodity in inventory, a farmer can expect to realize no gain or loss from hedging the commodity.

COMMENT: **False. When you hedge, you are still exposed to basis risk.**

F_____ 6. The intermediate term planning price can be influenced by the individual farm.

COMMENT: **False. This price comes out of national supply and use data and cannot be influenced by an individual farm.**

T_____ 7. A sound marketing plan interacts with the production.)

F_____ 8. Good financial records are not important in the development of a marketing plan.

COMMENT: **False. Good financial records are at the heart of developing a good marketing plan.**

F_____ 9. Farmers are usually aware of the level of price and financial risk they assume.

COMMENT: **False. Farmers tend not to be fully aware of the degree of financial and price risk they assume.**

F_____ 10. Farmers readily carry out their marketing intentions and plans.

COMMENT: **False. Execution of marketing intentions often is by-passed because of the demands of production.**