Farmer's Corner

"Helping The Producer Sell Better"

November/December 2017 Number 6

The "3 for 1" Deal

Who doesn't like a good bargain? A walk through the grocery store will expose you to an array of different sales tactics all aimed at helping you make a particular purchase and provide the feeling of euphoria that goes along with getting a good deal. While we all like saving money, most of us realize that cheap things are not always good and good things are often not cheap. Getting burnt a few times buying cheap products that do not perform as expected moves most people from being bargain hunters to value seekers. Instead of focusing on spending less we look to get more for our money.

This psychology plays right into the concept of the "2 FOR 1" sale. It is very satisfying to pay a fair price for something and then get something else for free. Well if you like "2 FOR 1" deals, let me introduce you to the "3 FOR 1" grain marketing deal, the Minimum Price Contract (MPC). That's right, a MPC allows you to stay in the market for one low fee, giving you **time**, **cash in hand**, and a **price floor**!

<u>Time</u>

Marketing grain after harvest always requires that you pay for more time. There are a number of ways this can be done. Some strategies have easy to identify direct costs and others have indirect costs that are a little tougher to pinpoint. Everything is out in the open when entering into a MPC. You sell grain at the current price minus a fee. The cost is known up front and does not continually accrue like some other contracts such as storage or Price Later (a.k.a. DP or NPE). Once written the MPC gives you the right to take advantage of a market rally for a set amount of time. The fact that you have priced the grain is key to the next two points.

<u>Cash in Hand</u>

This is where the real value starts to show up. With a MPC you pay for time, but get your money in hand at the time of delivery. Entering into a storage or Price Later contract offers no money up front and other contracts that do put money in hand will typically only advance 50-75% of the current cash value. A MPC pays out the entire minimum price which is typically 90-95% of the current value. When you figure the value of having your money now, a MPC starts to pay for itself!

Price Floor

This is where a MPC pulls away from the field. The price you receive up front is the absolute minimum you will be paid! You are in a position to take advantage of a rally in the market but will be unaffected if the price drops! You may think the market will not go lower, but it always can. Other strategies can give you the chance to capitalize on a rally but leave you equally at risk to lower prices.

There are a number of ways to stay in the market for the possibility of cashing in on a rally but only the MPC protects from the risk of lower prices. Consider that a MPC gives you all this and is often cheaper than commercial storage or Price Later fees! Why pay as much or more to stay in the market without reaping the extra benefits of a MPC.

MPC is not a silver bullet; just like all other strategies, there is no guarantee that you will see higher prices. Before taking any steps to "buy" more time, carefully examine whether you are better off taking what is currently available and starting to concentrate on next year.

If you are going to buy more time, consider getting more for your money with a MPC, the "3 FOR 1" marketing deal.

Attention Elevators - this is for you!

Please take a moment to read this article by our very own Roger Gattis published in this month's issue of Feed & Grain magazine. He does a great job of explaining the ramifications that poor grain buying policies have had on the industry and offers solutions to create a win-win-win for everyone!

If you find this article intriguing you will not want to miss the Grain Buyer's Bootcamp in Kansas City, scheduled December 7-8, where we will be discussing specific ideas for structuring proactive grain buying policies. Your invitation to the meeting is enclosed.

Register today for the Grain Buyer's Bootcamp:
www.mywhitecommercial.com/workshops.aspx

WHITE COMMERCIAL
CORPORATION

October 20, 2017 | By Roger Gattis

The Negative Feedback Loop

Beware the results of poor grain buying policies.

As of the writing of this article, some of us in the grain merchandising community find ourselves in what has unfortunately become a very familiar scenario. Farmers with unpriced old crop corn, which has up to this point in the marketing year been languishing in the farm bin or on a storage/delayed price (DP) contract, are coming to terms with the realities of both the market and the calendar as we approach what appears to be another abundant harvest. I say familiar because that last statement could've been said for the corn crops of 2014, 2015 and 2016.

What has many country grain buyers scratching their heads is 1) farmers have a better idea of what it takes to sell their corn above breakeven this year compared to past years, and 2) the market has presented more rallies and thus more selling opportunities this summer than in recent years.

> So, big crops, known breakeven levels and summer rallies, but no selling; what gives?

I tend to think that our current grain origination ills are a sort of marketing hangover from the '07 through '13 years in which both the producer and merchandiser were often rewarded without being proactive. If not rewarded, they were certainly not significantly penalized, profitability wise, by taking a wait and see approach to grain marketing. With the increasing production and carryout levels of the last few years, today's price environment is as different from '07 to '13 as the Sahara is from the Amazon. Similar to the way that crop input prices lag a downturn in the grain markets, much-needed changes in selling behaviors are also lagging the reality of the current situation in which the market trades below many producers' level to be profitable for a majority of the marketing year. So, what does all this have to do with grain buying policies?

First off, let's make sure we are all clear about what we are talking about when we mention grain buying policies from the merchandiser's perspective. Essentially, as a merchandiser or originator, you or your company have a certain set of guidelines and a specific system for buying grain. This includes, but is not limited to: contracts offered, service fees (e.g., DP fees, HTA charges, etc.), bid structure, discount schedules, farm marketing programs and general pricing policies (e.g., when DP bushels must be priced or how many times a Basis Only contract can be rolled). Companies tend to arrive at their policies either by inertia (we've always done it this way), by competition (I must do it if the guy down the road is doing it) or because it presents a win-win scenario for both farmer and elevator (farmer sells when cash price says to, elevator sells when basis says to). While an in-depth discussion of these topics would take up more space than this article allows, I would like to present the case for why poor grain buying policies, in general, have contributed to the recent farm marketing malaise.

Let us take a trip back in time to the summer of 2015. Producers appear to be heading for a good fall crop, have a good grasp on their costs and are waiting on a timely summer rally to consider getting grain sold. Buyers in the country are also waiting for that rally, hoping for the chance to get some new crop ownership. Besides watching the market, not much action is being taken either in the form of a structured plan for the farmer to sell grain or an earnest attempt on the part of the originator to buy grain; no firm offers/targets have been entered by the farmer nor asked for by the buyer. The much anticipated rally appears, but with no plan for locking in profitability when available, many producers let the pendulum of emotion swing 180 degrees from "it's so low I don't know why I even planted this stuff!" to "how high can this thing go?!" without taking any positive action at all. As a result, the country elevator doesn't get much corn bought.

> As we get into harvest, prices have dropped and to "compete" for the overabundance of bushels, merchandisers either initiate or retaliate in a bidding war, forcing nearly all markets to pay a higher harvest basis for the corn than is warranted for such a supply and demand setup (read: more bushels than space).

Even this running up of the basis doesn't accomplish its goal of buying more bushels, as the cash price is still too low to cash flow for many farmers. So whatever long position the elevator has coming out of harvest is owned at a 10 to 15 cents higher basis than was anticipated.

As we shift to the post-harvest period of mid spring,cash prices remain low and farmer selling is light. End users, needing a steady supply of corn each month, raise basis in typical fashion to attract commercial bushels, but to no avail. The merchandisers that paid up too much at harvest, in an effort to meet the margin goals that owning typical harvest basis would allow, hold out for a push that never comes and subsequently do not sell until much later. After receiving no help from either the futures or the basis, some end users resort to offering free DP to get corn moving to them; it works. The thing about free DP is that in a carry market like corn typically trades in, it effectively (and artificially) caps the basis; if that mechanism is bringing much needed corn into the pipeline, then there is little reason for the basis to do any heavy lifting and it stagnates at best. This result frustrates both the farmer when he finally prices out his DP corn, and the country merchandiser, who not only overpaid the market for his corn but now must face the prospect of selling the basis at a discount. Farmer and elevator alike are caught in a cost/price squeeze.

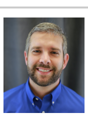
Fast forward to the summer of 2016. The previous year's scenario repeats itself in nearly every aspect; producers are distracted by their need to sell old crop bushels and forego selling new crop during the rally in June (which turned out to be the only rally that summer).

> Grain merchandisers don't have solid, proactive farm marketing programs to get basis bought by harvest at profitable levels. After harvest, end users, seemingly having no other recourse, entice bushels to the market through non-price signals. The main change this past year is that end users began offering free DP earlier in the marketing season, some as early as February.

As we approach harvest 2017, this same storyline is playing out once again. One reaction has been to (unwittingly perhaps) intensify the problem by pushing reactive buying policies that get grain into the supply channels at ANY cost, be it free DP programs that last 18 months, the perpetual rolling of basis contracts or the selling of questionable grain contracts offering the farmer a cheap way (or a premium) to get out of this hole. These are band aid solutions at best and do not address the underlying issues that led to this situation.

The news isn't all bad; another reaction to this recent cycle has been for merchandisers to take an extremely proactive approach in helping their producers get more profitable forward sales made ahead of harvest as well as getting basis ownership levels more in line with the type of large crop market we are heading into. This approach accomplishes a few things. First, it allows the farmer to have a significant portion of his production sold ahead of time, whether for harvest or post-harvest delivery, that is cash-flow positive and clears their mind to focus on the next crop. Secondly, it gives the merchandiser the opportunity to make a better margin within the grain value constraints of their given market. Finally, it permits the end user to get bushels sourced using normal price signals instead of relying on an artificial mechanism to move grain. The best part of all this is that no one is left with a bad taste in their mouth when all transactions are complete!

As a grain merchandiser, if you can achieve the goal of implementing and maintaining a proactive system of grain buying policies, not only will you go a long way in securing the relationships on both sides of the bushel, you will also find yourself able to maximize your ability to generate the greatest margins out of your market's basis curve. ∎



Roger Gattis, a grain merchandising specialist with White Commercial Corp., joined the WCC team in 2014, but has been a part of the WCC family since 2003. Roger, his wife Savanna and daughter Maizie reside in Lenexa, KS. He can be reached at 816-666-8708 or roger@whitecommercial.com.

White Commercial's

Grain Buyer's Bootcamp

December 7-8 | WCC Training Center | Kansas City, MO

SPACE IS LIMITED - RESERVE YOUR SEAT EARLY!

Where the WCC elevator community meets to share ideas, relate experiences and find solutions to their common grain buying challenges.

Old Crop Conversations . . .

- What are ways you can help farmer's market grain out of the bin this winter/spring?
- How do you keep margin in your bids without losing bushels?
- What's next in the follow up of your Minimum Price Contracts?

New Crop Conversations . . .

- What are your action-plans to get Target Contracts for the 2018 crops?
- What are the best ways for you to keep a meaningful marketing plan in front of your customers?
- How do you gain credibility as a knowledgeable marketing resource within the farming community?
- How do you adapt your delivery to the differing needs and preferences of your customers?

EARLY REGISTRATION OFFER!

Register for the Grain Buyer's Bootcamp before November 24 to enter your name into a drawing to win 2 seats to the Chiefs/Raiders game on Sunday, December 10th!*

SCHEDULE

Thursday 10:00am – 5:00pm
Friday 8:00am – 12:00pm

The Grain Buyer's Bootcamp is reserved exclusively for WCC participating elevators and invited guests. It is a complimentary service to our members.

Register Today!

Who Should Attend the

Grain Buyer's Bootcamp

The Grain Buyer's Bootcamp is for people of all skill levels.

- It is for those who have a strong desire to have more meaningful and actionable marketing discussions with their farmer/customers …

- It is for those looking for ways to enhance their farm marketing communications … through print, on-line presence, marketing meetings and one-on-one conversations …

- It is for persons who especially enjoy exploring new ideas, learning from others and sharing experiences … regardless of whether they've been originating grain for 10 weeks or 10 years.

The only prerequisite is having a sincere interest in helping farmer's market their crops profitably.

However, basic understandings of the philosophy of profit based marketing and workings of common marketing alternatives are helpful to getting the most from the discussions. Those who need training in this area should consider taking the ***Farm Marketing Essentials*** on-line course prior to the meeting. Information on this course can be found at http://gmc.whitecommercial.com

***How do I become eligible for the Football Tickets?**
If you register before November 24 your name will be entered into a drawing for 2 tickets to the Chiefs vs. Raiders game at 1:00 pm on Sunday, December 10. Tickets include access to the Club area where food and beverages are provided. Drawing will be streamed live from the WCC offices at 11:00 am EST on Friday, November 24. Two names will be drawn with each name receiving two tickets each. Winners will pick up tickets at the Bootcamp.

Register Today!

As of 9/29/17

GRAINS

Contract Month	Option Exp. Date Rule: Friday prior to the last business day of the month	First Notice Day Rule: Last business day of the preceding month
NOV 17	10/27/17	10/31/17
DEC 17	11/24/17	11/30/17
JAN 18	12/22/17	12/29/17
MCH 18	2/23/18	2/28/18
MAY 18	4/20/18	4/30/18
JUL 18	6/22/18	6/29/18
AUG 18	7/27/18	7/31/18
SEP 18	8/24/18	8/31/18
NOV 18	10/26/18	10/31/18
DEC 18	11/23/18	11/30/18
JAN 19	12/21/18	12/31/18
MCH 19	2/22/19	2/28/19
MAY 19	4/26/19	4/30/19
JUL 19	6/21/19	6/28/19
AUG 19	N/A	7/31/19
SEP 19	N/A	8/30/19
NOV 19	10/25/19	10/31/19
DEC 19	11/22/19	11/29/19
JUL 20	N/A	6/30/20
NOV 20	N/A	10/30/20

LIVE CATTLE

Contract Month	Option Exp. Date Rule: First Friday of the contract month	First Notice Day Rule: at the discretion of CME
OCT 17	10/6/17	10/9/17
DEC 17	12/1/17	12/4/17
FEB 18	2/2/18	2/5/18
APR 18	4/6/18	4/9/18
JUN 18	6/1/18	6/4/18
AUG 18	8/3/18	8/6/18
OCT 18	10/5/18	10/8/18
DEC 18	12/7/18	12/10/18
FEB 19	2/1/19	2/4/19

LEAN HOGS

Contract Month	Option Exp. Date Noon Rule: 10th business day of the futures contract	$$ Settlement Day Noon Rule: Cash settlement no delivery
OCT 17	10/13/17	10/17/17
DEC 17	12/14/17	12/18/17
FEB 18	2/14/18	2/16/18
APR 18	4/13/18	4/17/18
MAY 18	5/14/18	5/16/18
JUN 18	6/14/18	6/18/18
JUL 18	7/16/18	7/18/18
AUG 18	8/4/18	8/16/18
OCT 18	10/12/18	10/16/18
DEC 18	12/14/18	12/18/18
FEB 19	2/14/19	2/19/19

FEEDER CATTLE

Contract Month	Option Exp. Date	$$ Settlement Day
	Rule: Same as last trading as the futures contract	Rule: at the discretion of CME
OCT 17	10/26/17	10/27/17
NOV 17	11/16/17	11/17/17
JAN 18	1/25/18	1/26/18
MAR 18	3/29/18	4/2/18
APR 18	4/26/18	4/27/18
MAY 18	5/24/18	5/25/18
AUG 18	8/30/18	8/31/18
SEP 18	9/27/18	9/28/18

COTTON

Contract Month	Option Exp. Date	First Notice Day
	Rule: Last Friday which proceeds First Notice Day for the underlying futures by at least 5 business days.	Rule: 5 business days before the first business day of spot month
DEC 17	11/10/17	11/22/17
MAR 18	2/9/18	2/21/18
MAY 18	4/13/18	4/23/18
JUL 18	6/15/18	6/22/18
OCT 18	9/14/18	9/21/18
DEC 18	11/9/18	11/23/18
MAR 19	2/8/2019	2/21/2019
MAY 19	4/12/2019	4/23/2019
JUL 19	6/14/2019	6/21/2019
OCT 19	9/13/2019	9/23/2019

LUMBER

Contract Month	Option Exp. Date	Last Trading Day
	Rule: Last Friday of the prior month	Rule: Business day preceding the 16th calendar day of the contract month
NOV 17	10/31/17	11/15/17
JAN 18	12/29/17	1/12/18
MAR 18	2/28/18	3/15/18
MAY 18	4/30/18	5/15/18
JUL 18	6/29/18	7/13/18
SEP 18	N/A	9/14/18
NOV 18	N/A	11/15/18

N/A = not available at this time