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MARKETING GRAIN CAN BE A CHALLENGE - *HOW CAN YOU BEST WEATHER THE STORM?*

We hope this month's letter finds you well, and without excessive rain. Our area has been very fortunate so far this growing season with moisture accompanying the heat. There are a few pockets where some folks have been maybe a little too fortunate with rain, but overall crops look very good. An old saying says "rain makes grain," and the markets reflect that. That is why we thought it would be good to focus some more this month on another perspective on how to look at marketing. Hopefully there are some ideas that can be used long-term, as hopefully this market downturn is not itself long-term.

BREAKING IT DOWN *DISSECTING BREAKEVENS*

BY **LEE POTTS** | *Vice President / Loan Officer*

We are still in one of the important times of year as it relates to marketing. There is still old crop to go, and attention is directed more and more toward new crop. Most producers tell us that marketing ranks as the one of the most challenging aspects of agriculture. We agree because if marketing were easy all of us would be sitting in a much different position

more than likely. However, regardless of whether an opportunity to market grain or livestock exists today, a person can break things down into easy-to-chew bites as one approach to making marketing decisions.

We have talked about various considerations in the past regarding





how to make sure you are calculating accurate breakevens and making sure all costs in your operation are included—not just direct inputs, but equipment payments and other fixed costs such as family living, hired labor, etc. It all has to be paid from somewhere. Most of the time, we look at these expenses as being on a per acre or per head basis. What does this look like if a person looks at it on a per bushel or per pound basis? It can be eye-opening.

For example, let's pick on equipment payments a bit. It might be difficult to determine what dollar amount on a per acre basis is too much for equipment payments. We have our own opinions about that within the bank based on the wide range of scenarios we see every day, but how do you know what a desirable level is for your business? Opinions can be relative based on current market prices, granted. However if you are raising an average of 220 bushel corn, \$75 per acre payments translates to 34 cents per bushel. That is almost 10% of a bushel of corn worth \$3.50 and it starts putting it into perspective.

Using the same cost example, let's assume an operation is 65% corn and 45% soybeans. A person can allocate that fixed cost per acre over the same percentage based on gross income, acres, or whatever percent allocation one wants to use. A \$75 per acre cost allocated according to the percentages in this example equate to 22 cents per bushel on 220 bushel corn and 56 cents per bushel on 60 bushel beans.

The same approach can be used to make decisions on making various changes in the operation. Adding a payment for a piece of equipment, reducing the cost of seed, re-amortizing a loan, lowering cash rent, and the list goes on for every variable in your operation. These things can be looked at on a per bushel or per pound basis and from there a person can determine if it is realistic based on current and expected marketing opportunities.

For the livestock people, measuring changes on a per head or per pound basis compared to the current market opportunities will accomplish the same thing. A payment on cows of \$300 per head equates to 46 cents per pound on a 650 pound calf when they head to the sale barn. How does that fit in with current feeder prices? No different



on those 260 pound pigs heading to the packing plant.

Another example would be if you build in profit objectives. If one wants working capital or equity to increase by \$X, how many more cents per bushel or per pound do they need to shoot for in their marketing strategy to achieve that goal?

These are a few of many examples of how producers can create measureable goals as opposed to marketing to “get the most I possibly can.” There is no clear definition of “most I possibly can,” and nor does that start to create points at which marketing objectives can be triggered.

There is no magic wand as to the best approach to take with marketing, but the bottom line here is, like Andrew Fink mentioned in our previous article, using a business-minded approach of some type—such as the example outlined here this month as just one example--will help take the emotion out of marketing and enable the ability to create measurable (and hopefully achievable) goals. Everyone has different ways of visualizing various things in life. When it comes to marketing, we encourage you to find a way that suits you best and run with it!

QUESTIONS? *Our lenders are here for you!*

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