ProfitTalk
Simple perspective on disciplined grain marketing for producers

presented by
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Farm Bins: Fact vs Fiction

Prosperous times in the grain business over the last several years have led to many improvements in farming operations and maybe the most noticeable is all the shiny new bins that can be seen when driving throughout the country.

On-farm storage has two main goals – creating harvest efficiency and providing for additional return. The efficiency is straightforward, but how do you figure exactly what the return should be?

That's a pretty loaded question of course and there's not a precise formula, but there are plenty of misconceptions about what goes into that answer, so let's discuss the finer points.

Logistical Efficiency: Fact
Harvest is go time. 20 minutes to town, an hour in line (or worse), and 20 minutes back to the field is a grind. It's maddening when there's rain in the forecast. Most won't have the space to hold their entire crop, so the added time of going to a commercial grain handler won't be completely avoided, but every little bit helps. Farm storage can save you time and can save you from weather that can greatly diminish the quality of your crop.

More Time to Sell Grain: Fiction
First of all, do you really need more time? If you have a futures account, you can set your price for as much as 3 years before you harvest it. Granted, many producers don't have futures accounts, but they have commercial grain companies that will buy their grain for 1-2 years before harvest. Besides that, if you still need time after harvest to sell your grain, there are plenty of options available to you: storage, price later, basis contracts, minimum price contracts, etc. All of which can be done without having your own grain bin.

Picking Up Market Carry: Fact
This can be done, but must be done in a decisive, intentional way in order to avoid falling under the previous category of waiting to sell grain. There are 2 ways to do this. First is to hedge your bushels, lock in carry spreads, and lift the hedges when you make your cash sale. Of course, this requires trading a futures account. Many producers do not have futures accounts due to fear of margin calls or other risks, but there is another way to capture carry without having a futures account.

The second way is to make your harvest sale for a deferred delivery slot. Let's say it's harvest and the local elevator is paying $3.50 for spot bushels. Rather than selling for $3.50, they can still sell to the elevator that day, but for Jan/Feb/Mch delivery at a higher price. This higher cash price comes from a carry in Dec/Mch futures as well as a higher basis in non-harvest time. So, instead of selling $3.50 corn at harvest, the producer sells $3.75 corn to be delivered Jan/Feb/Mch. **Keep in mind, this is not a delay of marketing the grain, but rather in the delivery of it.**

Avoiding Storage Costs: Fiction
This seems a bit counterintuitive, I know, but follow me for a bit. Yes, if you're waiting to price post-harvest and it's in commercial space, you are paying a fee that you wouldn't be if it was in your own space. However, those storage fees are something you are paying to transfer risk (quality and shrink) to the elevator. If you are keeping the grain yourself, you are assuming that risk. No matter how good you are at taking care of your bins, this is a real risk. Even the greatest grain handlers/ operations gurus have had their issues at some point. A commercial elevator has the advantage of spreading the risk out among many bushels of varying quality and a full-time staff of professionals keeping tabs on everything. Just 1% shrink on $10 soybeans is 10 cents. In exchange for not paying someone a fee, you are taking that risk or more.

On-Farm grain storage can obviously be very beneficial to a farming operation. However, it has the ability to hurt your overall farm marketing program if not managed correctly. Teaming up with a merchandiser at a local grain elevator so that you know all of your marketing options and delivery options is always a good idea. They can help you extract as much from the market as possible and provide a lot of flexibility.