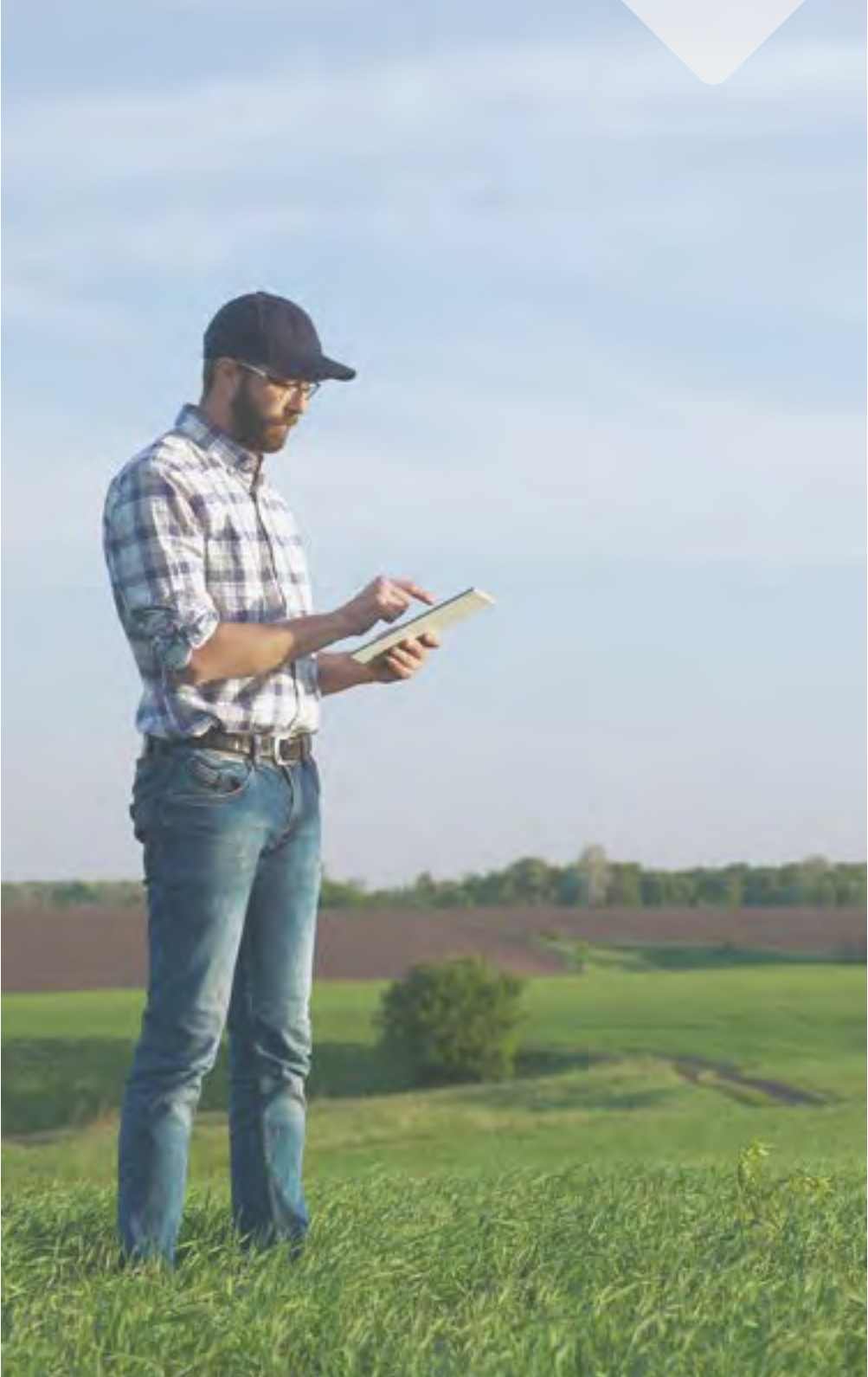




# Simple Steps to Better Grain Marketing

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**Bank Midwest**



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# Introduction

As if planting, raising and harvesting crops wasn't enough work, farmers often have to market and sell their grains as well.

While many may be familiar with the concept of grain marketing, having conducted business on their own for years, it can still be a difficult responsibility to take care of. After all, prices can move each day, complicating the goal of maximizing profits.

Add in the emotional aspect of marketing, and timing can be even more difficult to nail.

However, there are ways for farmers to get ahead of the game and craft a winning grain marketing strategy. This can be done

through careful cost planning and the use of a variety of marketing tools and contracts to find the best opportunities for money-making.

**This ebook will help walk you through those steps and even has an interactive workbook exercise you can use to gameplan your grain marketing.**

# Challenges exist, but planning can get you past them

Grain marketing begins and ends with knowing what challenges and opportunities exist. Assessing the market is crucial to finding the best price and selling at the optimal time.

To that end, U.S. grain markets are dealing with two major challenges as we enter a new decade:

1. The impact of the COVID-19 pandemic, which collapsed demand for grain and livestock, thus upending operations.
2. Growing international competition, primarily from Brazil and Argentina, coupled with uncertainty surrounding global trade (primarily concerning trade agreements with China, which is a big buyer of American agricultural products).

Having a detailed marketing plan is key to getting around these issues, because another challenge farmers need to deal with is emotions. Fear of losing out on a market rally may push some to sell when prices are trending back down. It's best to balance these gut intuitions with a rock-solid gameplan.





## There are many opportunities if you use your head

The grain marketing landscape is not all bad news. Opportunities will open up for those who may be willing to go the extra mile with their marketing.

This is because U.S. farmers are still in a strong position. Innovations in genetics have produced crops that are more resilient, while technology enables farmers to raise their crops more efficiently and cost-effectively, allowing them to easily ramp up production.

But success doesn't come because it's expected — you need to will it into happening through diligent and disciplined marketing.

For example, there are many different marketing contracts you can leverage, rather than just focusing on cash price from a local grain elevator. Using a more diverse range of contracts can help you to capitalize on opportunities as they emerge (we'll touch on that more later).

# Putting together your marketing plan

At a basic level, your marketing plan should address these core points:

- Expected yield
- Operating costs
- Price
- Basis, or the difference between cash and futures prices
- Risk premium
- Local market conditions
- Crop Insurance
- Ideal sell date
- Reason for selling

That last part is crucial. As best as you can, you should try to justify each decision with data, which means tracking changes in prices over time and supply and demand. Selling just because you feel it's the best thing to do may not always align with your operational goals.





## Marketing plan continued

For example, you can fill out a weekly price tracking table that will help optimize your marketing and uncover opportunities. It could look something like this:

Date	Spot cash price	Futures contract price	Basis	Forward cash contract price	Forward cash contract basis



## Use a variety of contracts to execute your marketing plan

As mentioned, there are a number of different tools and arrangements for selling your crops. Each has its own advantages and use cases, and mixing it up can help elevate your grain marketing plan and help you meet goals.

- **Forward cash:** This contract fixes the price of grain at the time of agreement, and usually results in physical delivery. The main benefit is a locked-in price that farmers can bank on at a certain date. But, the trade-off for a secure price is foregoing any gains that could be made due to a change in future or basis price.
- **Hedge to Arrive:** This contract is for the cash sale of grain at a predetermined futures price on the date of contracting. The basis is calculated later, often when the grain is delivered. This contract type provides farmers with some defense against risks like lower-than-anticipated yields. But similar to forward cash contracts, a locked-in price precludes gains from a higher real futures price.



## Contracts continued

- **Basis:** This contract specifies the basis at agreement, but locks in futures price at a later date. This structure allows for farmers to potentially benefit from prices that trend upward toward delivery. Importantly, however, such gains are not guaranteed, as prices could dip.
- **Futures:** This contract is traded on an exchange, like the Chicago Mercantile Exchange, and has a specific delivery quantity, quality and timeline.
- **Options:** An option contract gives farmers the right but not the obligation to sell or buy a futures contract. They are primarily best used as a hedging and risk management tool for when harvested crops are in storage. For example, buying a put option gives the owner the right to sell at a certain price, which can create a price floor for farmers.





## Better marketing comes from a dedicated mindset

None of this is to say grain marketing is a piece of cake. Farmers have a multitude of other responsibilities in the field and on the back-end with financials and accounting.

**When you give adequate time and resources to marketing, it can really pay off.**

But for many, taking advantage of new and unfamiliar contract types can be a daunting process. In general, it can be difficult to pivot your marketing strategy when you've established a routine.

Yet the upside of more insightful grain marketing is too much to pass up. Instead of holding out for hope of a better price, and then hurting then that doesn't materialize, you can utilize hedge contracts and options to solidify your position, generate some needed revenue, mitigate your risks and still keep open the possibility of profiting from future price changes.

## How Bank Midwest can help

Bank Midwest has a long and proud tradition of serving the diverse financial needs of our customers in agriculture.

If you need some grain marketing practice, you can visit our Resource Library at [BankMidwest.com](http://BankMidwest.com), where you can find a useful market tracking worksheet.

Or, you can call us to learn more about our farm lending products, including lines of credit and loans.

**Contact an ag lender at Bank Midwest today for more help today.**

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