Introducing the 21st Century Online Interactive Grain Marketing Primer

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The dilemma facing Extension marketing educators is how to effectively educate the farming audience. In other words, the use of grain marketing alternatives has historically been beyond the reach and knowledge of most commercial grain farmers. Much of the reason for this could be summed up in the old adage "use it or lose it." Extension audiences typically attend meetings and workshops only to be bombarded with information that may or may not be retained. The delivery method used in this project is all about repetition, thereby improving the farmer's access to reviewing the various grain marketing and crop insurance alternatives that are available to them. The authors of this paper contend that this method of teaching has cross-applicability to other teaching, research, and extension programs. Since every picture is worth a thousand words, we welcome the opportunity to share the teaching method described in this project with our teaching, research, and extension colleagues.

Grain and oilseed crops are an important source of farm income for Delaware, Maryland, Pennsylvania, New Jersey, West Virginia, New York, and, to a lesser extent, the rest of the Northeast region. Just as importantly, this production supports the region's poultry, dairy and livestock industries—the source of local milk, cheese, eggs, and meat for the dense population along the coast. An estimated 400 million bushels of grain and oilseeds are grown in the region, valued at over $2.5 billion. Farmers who do a good job of marketing a crop can expect to increase their net price received by ten percent. A ten percent increase in the value of production that Northeast farmers capture due to better marketing decisions can increase net farm income by $250 million.

Corn ethanol demand in the Midwest makes it more costly than ever to grow and transport grain to the East. At the same time, ever-higher land values boost the cost of production for Northeastern farmers. The right combination of crop insurance and pricing strategies can ensure profitability under a wide range of yields/prices.

This project provides Northeast grain farmers, Extension agents, and agribusiness professionals with a comprehensive, electronically available primer that addresses risk-management strategies regarding marketing and crop insurance decisions.

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Project Objectives

Upon completion of this project:

- Farmers will have ready access to online material that teaches them and illustrates the use of cash market alternatives, hedging in futures, options on agricultural futures, use of basis in making marketing decisions, and the interplay between price protection and crop insurance in managing risk.
- Grain and oilseed farmers will be able to more confidently choose marketing tools and better integrate crop and revenue insurance products into their marketing plans and thus be able to make more effective grain marketing decisions.
- Farmers will be able to increase the net price received for their grain and oilseed production by ten percent.
- Extension educators will be able to use the material in their marketing educational programs.

Evaluation results will be obtained via an online evaluation form and phone interviews.

Project Description

The material developed in this project provides Northeast farmers with a practical, self-help, interactive risk-management primer. The primer addresses the "how to" for various marketing and crop insurance alternatives. It is easily accessible and readily available on the Internet, providing links to other educational materials and applicable Web sites. The URL for the primer is www.GrainMarketingPrimer.com. Topics covered include Market Planning, Basis, Cash Market Alternatives, Futures, Options, Insurance, Profitability—How to Market Better, and Online Resources. A supplemental decision aid at www.webixi.com/grainguide can be used to help depict how to choose the appropriate marketing alternative when considering basis offers and fundamental indicators.

The material is designed so that a farmer can begin with entry-level information or skip to more advanced strategies depending upon his/her knowledge level. Self-testing quizzes reinforce concepts and allow farmers to identify material they should review.

Due to price volatility and a variety of other reasons during the past two marketing years, producers had the chance to effectively use put options on agricultural futures. Profitable sales prices for corn, soybean, and wheat production were available in mid-summer for both years. In many cases, the opportunities to price at profitable levels were foregone because of a lack of availability of a comprehensive primer for learning to make sound risk management decisions.

The primer developed in this project uses quizzes and spreadsheets to help farmers gain the confidence they need to use the best combination of marketing and crop insurance alternatives for their individual farming operations. The educational modules and decision aids assist them in selecting the right insurance policy while providing invaluable and comprehensive information on how to go about the task of marketing and/or selling their crops.

Considering that corn production costs are running as much as $600 per acre, a 140-bushel yield loses money even at $4.50 per bushel. A 200-bushel crop loses money at $3.00 per bushel. Yet a combination of revenue insurance, options, and making grain sales can bring profitability to a grower even with reduced yields and a low price.

Options on agricultural futures, when used at appropriate times, can reduce a farmer's price and production risks. Yet farmers in general do not understand how to incorporate options into their marketing programs. This project assists growers in understanding the risk profiles of different crop insurance products, how they can be combined with various marketing strategies, and how that choice changes the farm's risk profile.

The primary types of risk that grain producers face are yield and price risks. Most marketing alternatives do not adequately allow for protecting production risks, while most crop insurance alternatives do not adequately allow for protecting the price risk involved in selling a crop. To adequately protect price and production risk, a comprehensive approach to deciding what to grow and how to market the production is required. This primer is designed to improve understanding of the tools available to grain producers for making informed production and marketing decisions.

A major developing problem in grain marketing today involves the number of bushels that can be forward priced prior to harvest. Frequently, grain producers no longer can forward price all of their sales needs in a given growing season/marketing year using only cash market alternatives. In some production areas, producers can only forward price a limited amount of their total production—about half of the amount that was historically contracted. Additionally, grain producers can cover only a certain percentage of their production risk using crop insurance. This primer addresses both of these problems.

Since the fall of 2007, price volatility has increased for farm commodities, making the importance of effective risk management at the farm gate more important than ever. This primer shows farmers how to use their marketing alternatives in order to take advantage of price volatility to increase crop sale profits while improving their bottom line.

Risk management involves many vehicles, including crop insurance, cash markets, hedging in futures, and options on agricultural futures, and these products interact with each other as well. Because the relationship between cash and futures prices (basis) in the Northeast is different from the more widely covered Midwest, the development of specific educational materials is crucial to assist Northeast farmers in making the best and most profitable decisions.

Traditionally, farmers are drawn to their profession by a love of working the soil and/or caring for animals—not a love of dealing with financial derivatives or learning about a crop of risk management tools. Young, beginning, and female farmers, especially, often have experience in field operations gained by working for their parents or others, while they have had little or no responsibility planning and/or making risk-management decisions in the office.

Likewise, lenders often do not understand the role of futures and options in protecting against risk. In the current atmosphere and in the Northeast, where agriculture may play a smaller role in a lender's portfolio, education that demonstrates hedges as sound business practice and margin calls as a line item in the producer's cash-flow budget could mean the difference between a lender providing loans or not.

With the product developed in this project, grain producers are able to make informed marketing decisions using cash market alternatives, hedging in futures, options on agricultural futures, basis (current bids and historical offerings), and crop insurance alternatives.

Selected References

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Appendix

Market News, Quotes, Basis and Other Information. For a listing of these sources go to www.grainmarketingprimer.com and click on Resources.

Grain Marketing Basics Blog by Linda H. Smith.
http://www.agweb.com/TopProducer/Blogs/BlogHome.htmlx?ID=09f18369-75db-4c3f-a72b-64335101193e

Grain Marketing Discussion Group – Carl L. German, List Owner.

This forum is an electronic grain-marketing club. Participants in the grain marketing discussion group can enter or receive information on any and all aspects of grain marketing, marketing alternatives, and marketing strategies. Participants receive a weekly grain market analysis/update. To subscribe to the grain marketing discussion group send a message to clgerman@udel.edu with the only message in the text that reads: subscribe grn-mktdg@udel.edu. The discussion group operates as a closed group, meaning the integrity of the site is maintained by listings to the group having to be approved by the list owner.