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Developing a Corn Marketing Plan

J. William Uhrig, Donald Hilger, Gary VanHoozer, and Mark Miller

The old adage that "a farmer has to take whatever the buyer wants to give for his products" doesn't have to be true any more. Today's corn farmer has many marketing alternatives available to him. He can market his corn and not just sell it.

By developing an intelligent, calculated marketing plan, the corn producer can usually assure himself of a reasonable profit -- even before he puts his seed in the ground.

The Increasing Need for Marketing Savvy

Farmers in general -- and corn producers in particular -- are faced with a widely fluctuating market demand. Complicating the corn marketing situation today is our increasing dependence upon foreign buyers. More than 25 percent of America's corn is now being exported. Since foreign buyers are reacting constantly to feed grain supplies and prices around the world, it's difficult to predict foreign demand for American corn from year to year.

American agriculture also appears to have an endless and constantly growing appetite for credit. It's especially easy for young farmers just getting started to extend their credit to the absolute limit. Under these circumstances, today's corn producer simply has too much at stake to rely on the market price at harvest, and chances are his lender won't let him. Today's lender wants to see a well-thought-out marketing plan before he lends production money.

It's becoming harder also for corn producers to rely on historical information to help them anticipate corn demand and prices. Seasonal price patterns and historical performance of the markets still help, but they require constant adjustment as worldwide conditions change.

The result of all these factors is less price certainty and more risk for corn producers. To survive and make money, producers must sharpen their understanding of the market and the marketing alternatives available to them.

The Importance of Planning Ahead

The corn producer should have his destination and his route firmly in mind before he starts planning his next crop. Determining a marketing objective should be the first step of production. By studying market predictions and anticipated market conditions, you can pick up valuable clues that will help you in production planning. December corn futures price and November soybean futures quotes are an early tip-off, to what the market feels about the relative prices for upcoming corn and soybean crops. These prices change daily in response to changing supply and demand conditions.

When a producer plants a crop with his marketing scheme well in mind, he is beginning to get away from "selling" and is developing his skill at "marketing." Selling:

--Quality or grade easiest produced.
--Most convenient time.
--Most convenient place.
--Whatever price offered.

Marketing:

--Quality or grade with most profit potential.
--Most profitable time.
--Most profitable place.
--Some control over price and profit.

When a producer has a complete production and marketing plan, he can make the management decisions every step of the way. Then, and only then, can he begin to produce with profit: as his objective, not just price.
Factors that Affect Corn Prices

During the past 5 years, the agricultural industry has had minimum government interference with the pricing system. Freely moving prices have guided production, distribution, and consumption of most agricultural products.

The corn market is worldwide, and prices are tied together at all times by differences in time, form and space dimensions, as illustrated by the daily price quotations of the futures market. Price differences spreads between each of the futures months and the difference between the cash and futures prices over time (change in basis) reflect returns to storage over time -- which can be locked in on a given day. Transportation charges between markets reflect the cost of products over space and influence prices paid or received for the commodity. For example, in a surplus grain producing area such as north central Indiana, market prices for corn is the Chicago price less cost of transportation to the central market (Chicago). But, in a deficit grain producing area (after harvest) such as southeastern Indiana, market prices may be the Chicago price plus the cost of transportation from the central market.

Two causes are generally associated with the variation in corn prices over time: (1) a change in supply and use by geographic areas, or (2) imperfections in the information system which helps establish price. U.S. government grades and the market news service help improve communications and decrease the imperfections in the corn pricing system.

In any particular year, the price of corn results from the interplay of supply and demand forces as well as technical factors which influence the market. There are multiple market outlets -- both domestic and foreign -- that compete for available corn.

The size of the commercial supply of corn each year and the total market demand largely determine the prices received by farmers. Thus, corn prices at the farm level are a composite of domestic and foreign demand and the influence of the factors affecting the cost of transportation and handling.

Establishing a Marketing Objective

To do a good job of marketing, a corn producer must have a marketing objective. He first must decide what crops to produce and how much of each. Then, if he's in a solid financial position, he may want to take his chances at harvest or hold his production in storage and try to sell when he figures prices are highest. If he wants to store his crops and be sure of a good profit, he may plan to pick an opportune time to hedge his stored crops in the futures market. If he doesn't have storage space, he may want to "lock in" a profit on his growing crops by forward contracting or hedging part of his production. Every corn producer should have an objective before he plants his crop.

Figure Your Costs

You can't determine your anticipated profit until you first determine your production costs. Once you've figured your costs, you can decide how many acres of corn to grow relative to beans, for instance, and you can watch cash contract offerings and futures prices and know when to "lock in" a satisfactory price.

To arrive at an "asking price" that you would be willing to accept for your corn, you should work through a production budget. Total all variable and fixed costs, then add some return to management and profit. Figure an asking price per bushel that you consider reasonable and profitable.

Evaluating Your Marketing Alternatives

In planning your corn marketing program, you can choose to (1) gamble and price your crop when you deliver it either at harvest or out of storage, or (2) forward price your crop by using cash contracts or hedging in the futures market.
The cash market is simply the market where most producers normally sell your local grain elevator. Cash market advantages:
--It's simple.
--You get current price.
--No margin money required.
Cash market disadvantages:
--You seldom get highest price.
--It's a high risk market.
--It's difficult to plan production.

If you operate entirely on the cash market, you never know whether you will make any money until your crop is sold. Even if you store your corn for later sale, you are still speculating unless you have forward priced your crop with cash contracts or hedged in the futures market.

Cash contracts let you know in advance whether you will make a profit or loss on your crop. Cash contract advantages:
--Exact price known in advance.
--No margin money required.
--Simpler than hedging in futures market.
Cash contract disadvantages:
--You have reduced flexibility.
--You must deliver at contract price.
--Price is usually slightly below that which could be obtained through hedging.

The futures market also lets you price your crop before delivery. You can hedge your crop before it is planted, while it is growing or while it is in storage. Since many buyers and sellers are involved in the futures market, it is easy to buy and sell futures contracts. When you are ready to sell (deliver) your corn, you simply buy back your futures contract and sell your corn on your local cash market.

Futures market advantages:
--You know price range.
--You have maximum flexibility.
--Competition establishes price.

Futures market disadvantages:
--Requires much understanding.
--Requires margin money.

Learning to use the futures market can give you maximum satisfaction from your corn marketing. And, if used properly, the futures market can guarantee you an acceptable price for your crop almost every year.

Summary

Marketing your corn crop for the best possible return often depends upon the marketing alternative that you adopt. You no longer have to sit back and passively accept any price that the corn market offers you at harvest or when you decide to take your crop out of storage. You have many marketing alternatives available to you today that allow you to plan your corn marketing intelligently. You may choose to:
--Sell the crop at harvest.
--Contract for sale before the crop is planted.
--Contract after the crop is planted, selling parts of the crop at different times.
--Sell part of the crop at harvest and store the remainder for sale the following year.
--Store and sell at intervals over the 6 or 8 months following harvest.
--Hedge the crop through the use of futures.
--Feed to livestock.
--A combination of the above options.

Understanding the relationship between cash and futures prices will enable you to do a better job of marketing, even though you may decide not to use the futures market directly.

The option that you choose and the marketing program that you develop and follow should always fit into your overall income tax situation and farm plan.
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