

Making Smart Financial Decisions for 2017 & Beyond

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Background

- There is no “Silver Bullet” for managing income volatility and tight margins.
 - However, we may be able to view the problem(s) from a different perspective to improve decision making.
 - Every farm operation is different, so generic recommendations are dangerous.
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Focus on Efficiency

- The easiest way to cut variable input costs (seed, fertilizer, chemicals, fuel, etc.) is to have a price decrease.
- Unfortunately, the prices for inputs are dropping slowly.
- This means each input must be reevaluated to look for savings.
 - See Crop Budgets

2017 North RRV Region	<u>Wheat</u>	<u>Wheat (5% better)</u>
Market Yield	57	59
Market Price	5.06	5.31
Market Revenue	288.42	317.98
-Seed	17.50	16.63
-Herbicides	22.00	20.90
-Fungicides	17.00	16.15
-Insecticides	0.00	0.00
-Fertilizer	63.58	60.40
-Crop Insurance	13.70	13.02
-Fuel & Lubrication	13.42	12.75
-Repairs	20.62	19.59
-Drying	0.00	0.00
-Miscellaneous	7.50	7.13
-Operating Interest	<u>4.16</u>	<u>3.95</u>
SUM OF DIRECT COSTS	179.48	170.52
-Misc. Overhead	8.26	8.26
-Machinery Depreciation	23.81	23.81
-Machinery Investment	13.95	13.95
-Land Charge	<u>89.00</u>	<u>84.60</u>
SUM OF INDIRECT COSTS	135.02	130.62
SUM OF LISTED COSTS	314.51	301.14
RETURN TO LABOR & MGMT	(26.09)	16.84

Focus on Efficiency

- This does not mean that cheaper is better!
 - This does not mean that input levels should automatically be cut to reduce costs.
 - Each input must have the ability to pay its own way.
 - Don't simply trade money.
 - What is the impact on yield potential?
 - Will enough revenue be earned (saved) to pay for the input?
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Focus on Efficiency

- Example: “Insurance Inputs”
 - Inputs applied “just in case there is a problem”
 - When crop prices (and profit levels) were high, the value of the potential “lost bushels” was high enough to justify insurance inputs.
 - Biggest challenge is that most variable inputs must be purchased and applied before we have a reasonable idea of the crop’s yield potential.
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Focus on Efficiency

- No one knows what the future will bring.
 - Weather uncertainty
 - Political uncertainty
 - Economic uncertainty
 - But, we still need to make decisions.
 - Don't beat yourself up over a decision that did not turn out the way you expected!!
 - **Did you make the decision based on the best information at the time?**
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Focus on Efficiency

- Seed
 - Choose the “correct” genetic package, and set of traits, for the field/tract of land
 - Fertilizer
 - Dr. David Franzen’s updated fertilizer recommendations
 - Split application
 - Pest Control
 - Very difficult because of multi-year impacts
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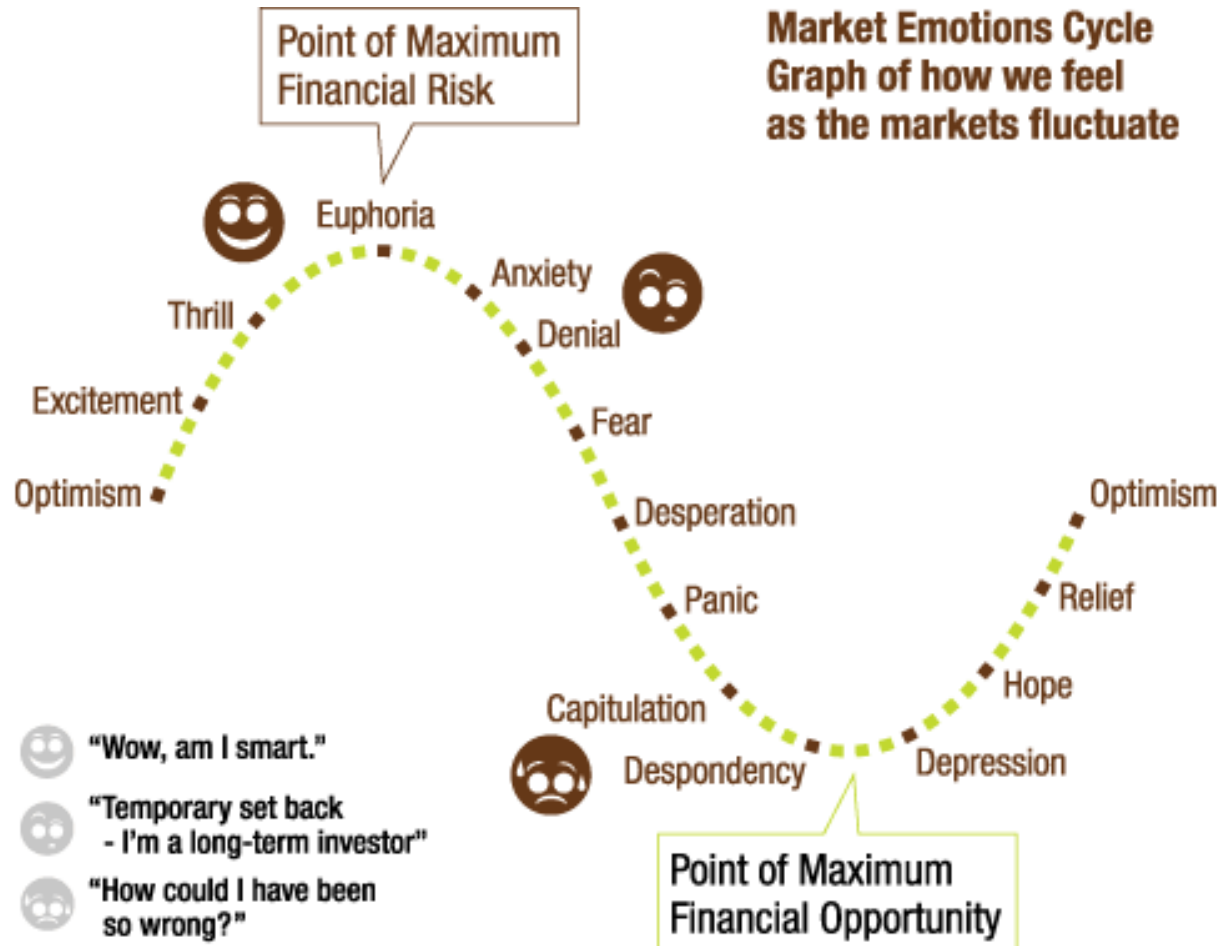
Focus on Efficiency

- Crop Insurance
 - How much risk can you handle?
 - Example: Shift from optional units to enterprise units and increase percent coverage

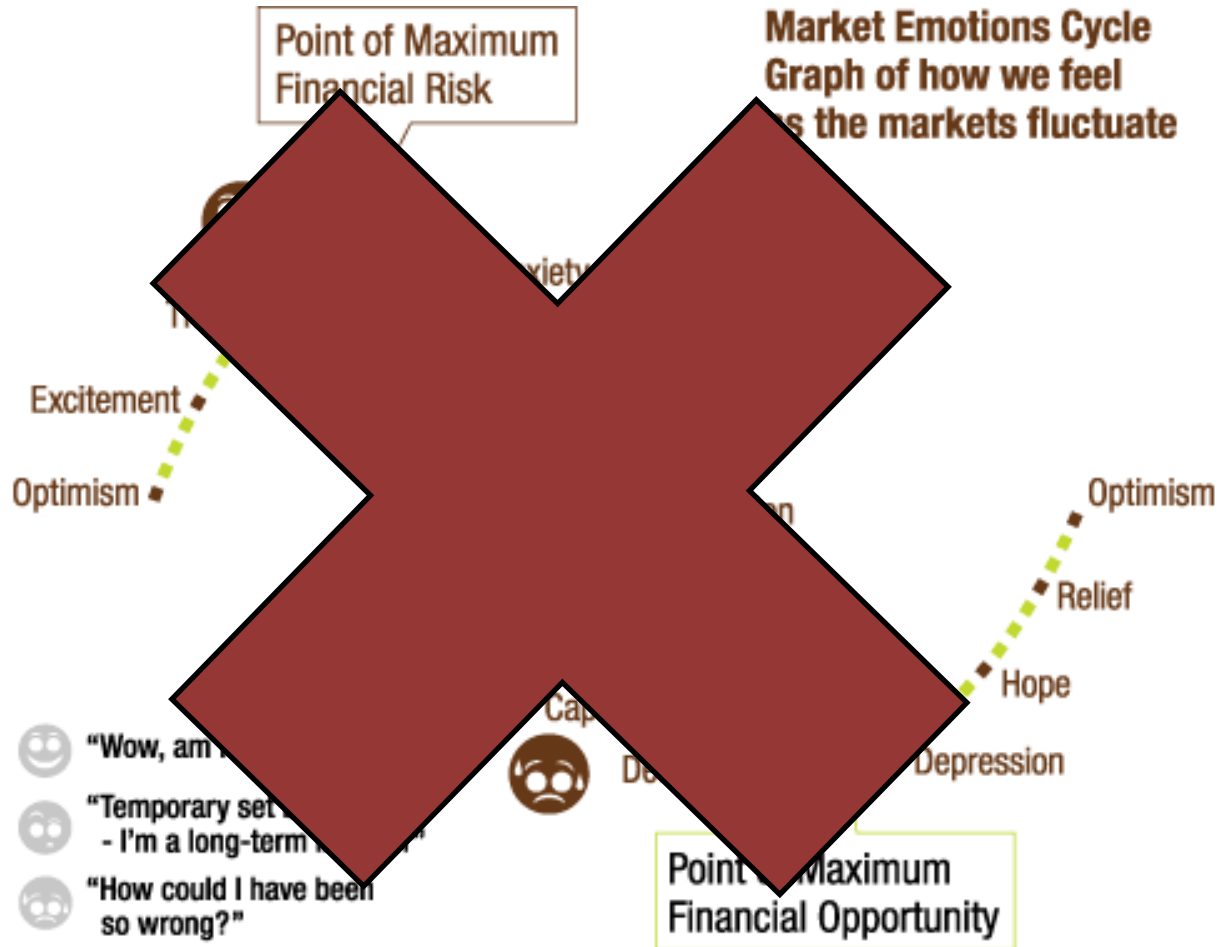
Evaluating Investments

- In Agricultural Finance Class we teach:
 - 1. Does the investment make financial sense?**
 - Will the investment increase efficiency?
 - 2. How do we finance the investment?**
 - Can we come up with the equity (down payment)
 - Can we make the payments
 - 3. What are the income tax implications?**
 - Use accelerated depreciation “wisely”
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Improving Marketing Decisions



Improving Marketing Decisions



Improving Marketing Decisions

- **There are only two emotions in marketing:**

A. GREED

B. FEAR

Improving Marketing Decisions

- What price level will you start to sell?

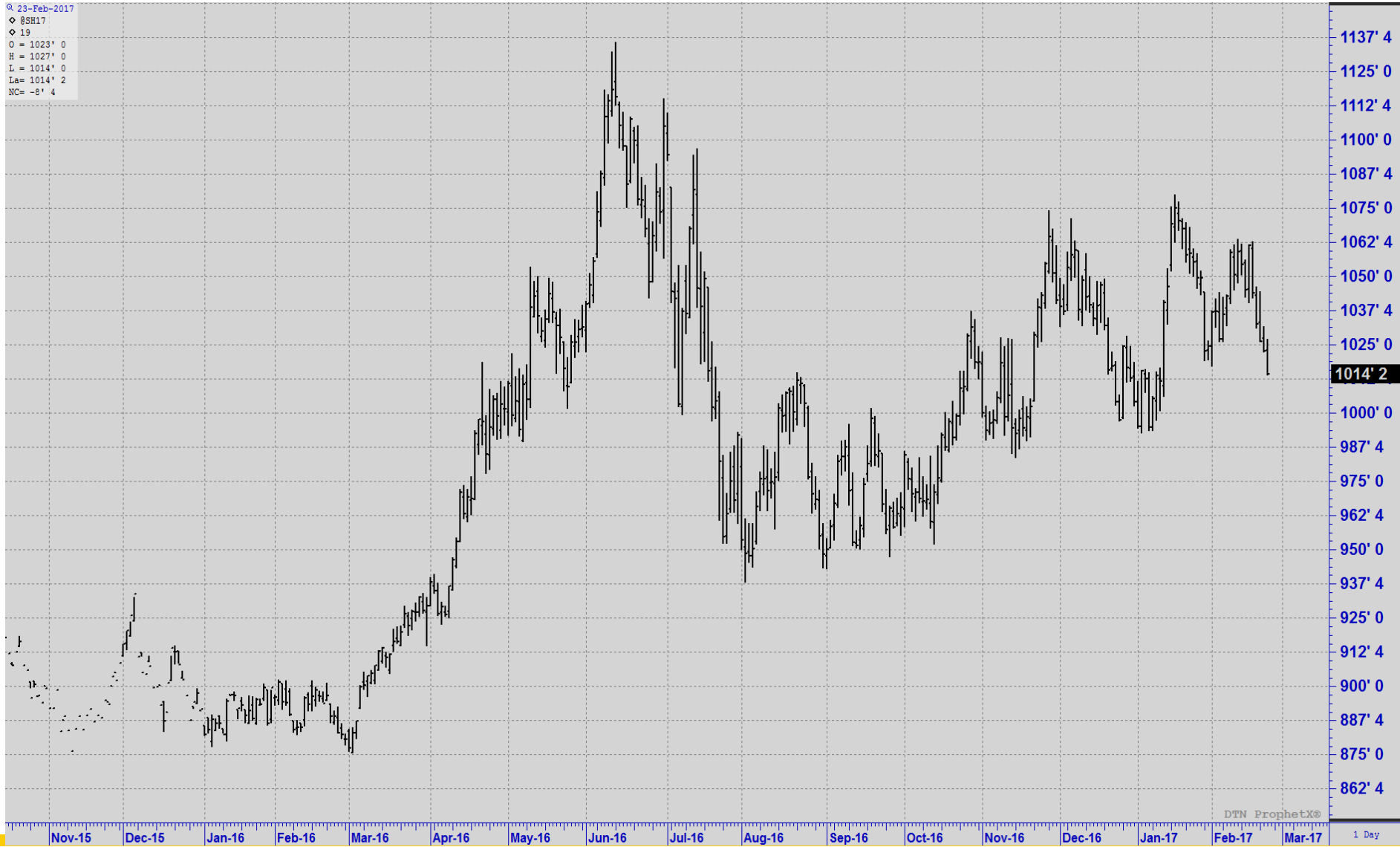
Improving Marketing Decisions

- What price level will you start to sell?
 - When will your neighbor start to sell?
 - When will the farmer in Iowa start to sell?

Improving Marketing Decisions

- What price level will you start to sell?
 - When will your neighbor start to sell?
 - When will the farmer in Iowa or Canada start to sell?
 - You will never be able to react fast enough to hit the highs!!
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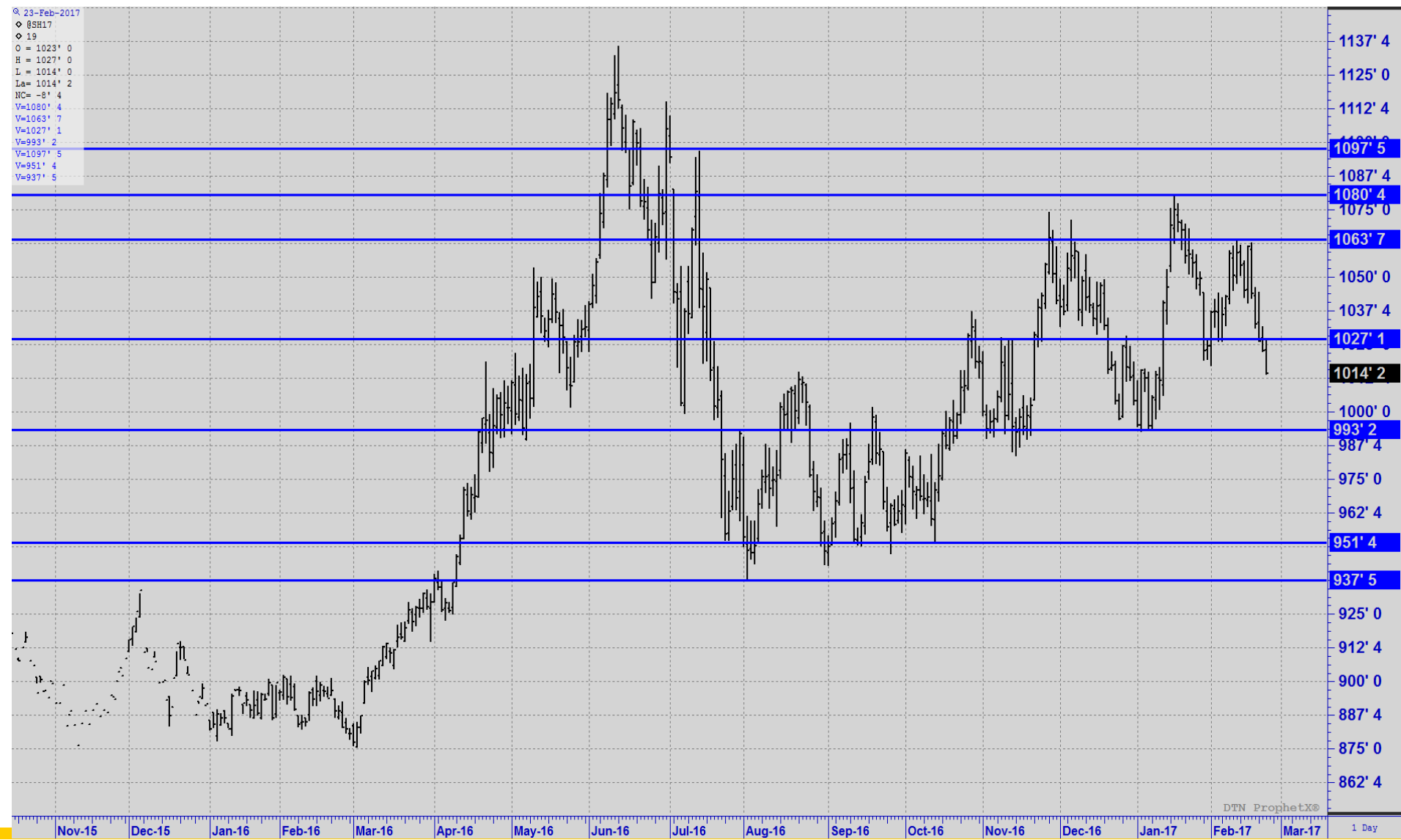
Mar. CBOT Soybean Pricing Points



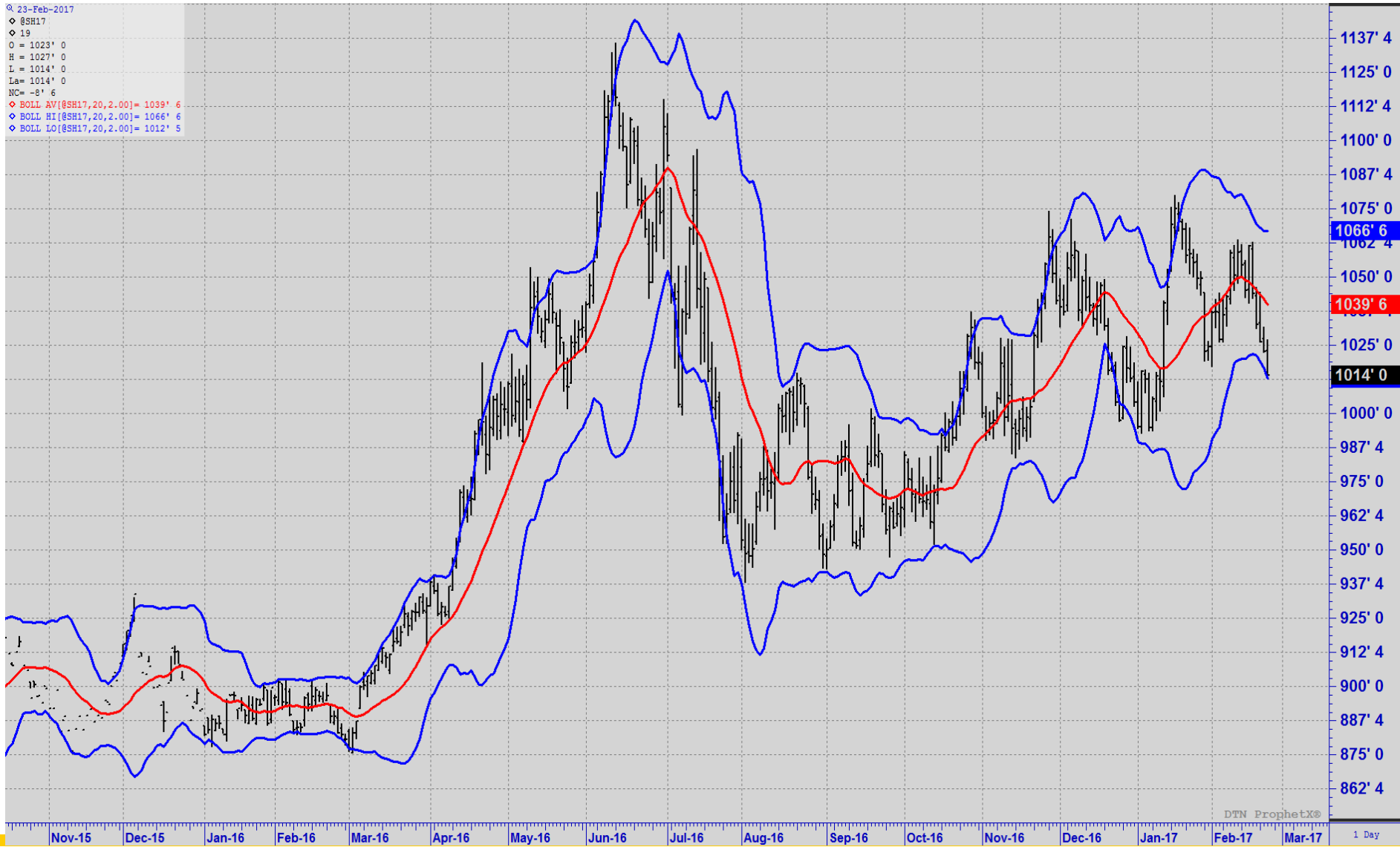
Improving Marketing Decisions

- Don't beat yourself up because you “sold too soon” or “didn't sell enough”
 - Marketing looking backwards is easy
 - How do you pick pricing points?
 - Cost of Production + Target ROI
 - Price Resistance Points
 - Previous Highs
 - Moving Averages
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Mar. CBOT Soybean Pricing Points



Mar. CBOT Soybean Pricing Points



Improving Marketing Decisions

- Questions I ask myself:
 - What is my planning horizon?
 - Two week
 - Two months
 - Eight months
 - What event(s) might happen to “shock” the market into higher prices?
 - Given what I know today, what are the odds prices will increase versus the odds prices will decrease?
- Keep up with current events

Improving Marketing Decisions

- Implementing a marketing plan is the most difficult part (Pulling The Trigger)
- I have been recommending using GTC (Good Till Cancelled) orders
 - Place an order to sell a specific quantity of grain at a specific futures price
 - Futures Fixed Contract (Hedge-to-Arrive) with elevator or processor
 - Sell a futures contract using a broker
 - There is no cost if the order is not filled
 - Make incremental sales

Questions?

