

Farmer's Corner



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Number 1

J A N U A R Y

A Time for Setting Goals

The end of harvest and the end of a calendar year provide opportunities to relax and reflect. It's also a time of year that includes that most necessary of evils, income tax preparation.

Since participation isn't voluntary, is there a way to find some good in the process? There might be. Farming is filled with unknowns, but going through the numbers brings some knowns to light, and with them a chance to think about what might be changed to improve future outcomes.

Regarding Old Crop (2016 Harvest):

Here are some things you know or can figure out:

1. Cost of production per acre
2. Actual yield per acre
3. Amount received (or to be received) for the 2016 crop that you have sold so far
4. Amount of bushels that you have left to sell

Calculate the value of your 2016 crop as of today by adding what you have sold to what you would receive if you sold the rest of the crop today. Then ask yourself, "Where does that put me in terms of profit?"

If you like what you see, then your plan is simple – take it off the table by selling. If nothing else, ask yourself whether you're willing to put that at risk by waiting any longer to sell. If you are not satisfied with what you see, then it's time determine the results you want and translate those into a target price on the remaining bushels that will make it happen.

There is also a middle road – you can use Minimum Price Contracts. These give you a guaranteed price floor while leaving the upside open to capture a higher price if the market should rally. You get the minimum price upon delivery and may get more if the market rallies. You can also enter a target contract to automatically execute pricing if the market rallies your desired amount.

Regarding the 2017 Crop:

Take a good look at what you already know for sure. Have you pre-paid all or part of your fertilizer, seed and/or chemical bills? What do you expect your cost per acre to be for 2017 vs what you cost was in 2016? How many acres of the respective crops do you plan to have along with the yield you would expect to raise on those acres?

Once you have this information, it's important to take the next step and determine what kind of profit you would like to receive by adding an expected profit per acre for each crop to the cost and determine how much revenue you will need to generate per acre. Divide that number by the expected yield and you have your target price you will need to achieve for 2017.

Some other things that you may wish to consider in your plan:

1. Am I willing to sell prior to the spring insurance prices being set?
2. How much do I need to sell at harvest and how much will I be keeping on the farm for post-harvest delivery?
3. What do I anticipate my cash flow needs to be, i.e. when am I going to need cash?
4. How much am I willing to contract prior to harvest?

In Summary:

There are a lot of very important decisions to be made in the coming months, the better informed you are about your own operation the better position you are in to be decisive when opportunity arises. Given the volatility in the markets and critical nature of these decisions, we would suggest that you talk through the numbers with your business partners, spouse, and any other key people, then set some pricing targets that will allow to you reach your goals.

Next, stop in or schedule a time to visit with us about contracting options that will help you get the job done for 2016 and 2017 crops. Your continued success is crucial to ours, so we are here to help.