Delaware Cooperative Extension

Making a difference

What's New in Marketing and Management

Developing Grain and Soybean Sales Price Objectives

The agricultural and general economy poses a challenge to grain and soybean producers marketing their crops. When marketing specific commoditites, producers are faced with two primary risks: yield and price. Additionally, the opportunity to achieve sales prices that are large enough to cover total production costs can be limited. This may be due to any number of factors that either affects production and/or price for a specific commodity. For example, yield reductions brought on by adverse weather conditions, oversupply in the market, periods of slack demand or any number of other factors will impact positively and/or negatively upon commoditiy prices and the price objectives that a producer needs to acheive.

Setting Sales Price Objectives

Due to the uncertainty that exists in marketing commodities in a given time, it is generally necessary to set two sales price objectives. The first price objective is based upon total production costs (maximum price objective). The second objective is based upon cash or out-of-pocket-costs (minimum price objective).

Sales price objectives that are set prior to planting and harvest can be used to determine when profitable pricing opportunities occur. The objectives can be used in selecting the marketing alternative offering the best return at any given point. Generally, producers have a two-year horizon in which to market each crop.

Procedure 1. SETTING SALES PRICE OBJECTIVES BASED ON TOTAL PRODUCTION COSTS

	CORN	SOYBEANS	Other
		- per acre -	
A. YIELD PER ACRE (BUSHELS)	_____	_____	_____
B. CASH PRODUCTION COSTS			
1. LIME	_____	_____	_____
2. FERTILIZER	_____	_____	_____
3. SEED AND SEED TREATMENT	_____	_____	_____
4. PESTICIDES	_____	_____	_____
a. INSECTICIDES	_____	_____	_____
b. HERBICIDES	_____	_____	_____
5. SPREADING	_____	_____	_____
6. REPAIRS	_____	_____	_____
7. FUEL	_____	_____	_____
8. HIRED LABOR	_____	_____	_____
C. TOTAL CASH COSTS	_____	_____	_____
D. INTEREST ON OPERATING CAPITAL	_____	_____	_____
E. TOTAL CASH COSTS + (plus) INTEREST	_____	_____	_____
F. FIXED COSTS	_____	_____	_____
1. MACHINERY (TOTAL MACHINE COST X _____ %* / ACRES HARVESTED)	_____	_____	_____
2. MACHINE INTEREST (½ VALUE OF MACHINE COST/ACRE X _____%*)	_____	_____	_____
3. INSURANCE @ l.5% OF MACHINE COST PER ACRE	_____	_____	_____
4. LAND PAYMENT	_____	_____	_____
5. LAND TAXES	_____	_____	_____
6. (or) CASH RENT	_____	_____	_____
G. TOTAL FIXED COSTS (ADD F1 TO F6)	_____	_____	_____
H. TOTAL PRODUCTION COSTS (ADD E + G)	_____	_____	_____
I. BREAK-EVEN TOTAL COST (H / A)	_____	_____	_____

* cost of interest on borrowed capital

Procedure 2. SETTING SALES PRICE OBJECTIVES BASED ON CASH PRODUCTION COSTS

	CORN	SOYBEANS	Other
		- per acre -	
A. YIELD PER ACRE (BUSHELS)	_____	_____	_____
B. DIRECT CASH COSTS			
1. LIME	_____	_____	_____
2. FERTILIZER	_____	_____	_____
a. NITROGEN	_____	_____	_____
b. PHOSPHOROUS	_____	_____	_____
c. POTASSIUM	_____	_____	_____
d. MICRO NUTRIENTS	_____	_____	_____
3. SEED AND SEED TREATMENT	_____	_____	_____
4. PESTICIDES	_____	_____	_____
a. INSECTICIDES	_____	_____	_____
b. HERBICIDES	_____	_____	_____
5. SPREADING	_____	_____	_____
6. REPAIRS	_____	_____	_____
7. FUEL	_____	_____	_____
8. HIRED LABOR	_____	_____	_____
9. INTEREST ON ABOVE COSTS	_____	_____	_____
10. CUSTOM COSTS	_____	_____	_____
11. MACHINERY PAYMENT	_____	_____	_____
12. LAND PAYMENT AND	_____	_____	_____
13. LAND TAXES OR	_____	_____	_____
14. CASH RENT	_____	_____	_____
15. RETURN TO MANAGEMENT *	_____	_____	_____
16. INTEREST ON GRAIN	_____	_____	_____
17. MISCELLANEOUS	_____	_____	_____
C. TOTAL CASH COSTS (ADD B1 to B17)	_____	_____	_____
D. BREAK EVEN CASH COST (C / A)	_____	_____	_____

*Include only family living expenses.

Summary of Price Objectives

Base the maximum price objective on anticipated total production costs (Procedure l), and the minimum price objective on anticipated out-of-pocket or direct cash costs (Procedure 2).

MY BREAK-EVEN TOTAL COST IS $_____ PER BUSHEL FOR _____ . AND $_____ PER BUSHEL FOR _____. PRICES ABOVE THESE LEVELS WILL BE PROFIT AS I HAVE INCLUDED ALL OTHER COSTS. I MAY BE ABLE TO UPGRADE MY

EQUIPMENT, BUY MORE LAND AND/OR TAKE A VACATION.

MY BREAK-EVEN CASH COST IS $_____ PER BUSHEL FOR _____. AND $_____ PER BUSHEL FOR _____. PRICES ABOVE THESE LEVELS WILL GO TO PAY ME FOR MACHINERY DEPRECIATION AND/OR PROVIDE A RETURN FOR MY LAND INVESTMENT. I'M IN BUSINESS FOR SURE NEXT YEAR.

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