



Local Elevators Help Farmers Manage Risk

By Keith Hainy, General Manager, North Central Farmers Elevator

Farming at the close of the 20th Century involves more than growing and harvesting high-yielding crops. The successful farmers are the ones who market their grain most profitably and manage risk most effectively. Under the Freedom to Farm Act, it's more crucial than ever for grain producers to use all the marketing and risk management tools at their disposal.

You may be surprised to learn that many of these tools are available through your local elevator and that a key role of the local elevator is to help farmers compete in the global marketplace. This role is played out in several ways— by educating, by distributing information and by offering marketing options such as storage and contracts.

Lesson #1: Sell at a Profit

As a local cooperatively owned line of elevators, North Central endeavors to educate our farmer-customers by:

- **Making ourselves available on a daily basis to visit with individual producers about their marketing plans and options.**
- **Conducting periodic meetings and seminars to provide insight on how the grain markets work and to explain the various marketing tools available.**
- **Hosting an independent brokerage service at our main office to give producers yet another resource for managing their marketing risks.**

So many farmers think they must hit the high point of the market to be successful. Many lose dollars because they are waiting for the last few cents. In doing so they perpetuate the "old saw" that farmers sell two-thirds of their grain at the bottom one-third of the market.

Our mission is to help farmers determine their costs, set some profit objectives and establish price levels at which they are willing to sell, even if the market looks like it could go higher. Planned marketing is something that can be taught, and the local elevator is a natural classroom.

Closely related to education is the process of distributing market information. Local elevators have daily contact with exporters, processors and brokerage firms— sources of information that can be helpful in marking good marketing decisions. This information is passed on to farmer-customers as they call or

stop at the elevator.

Many elevators find a toll-free number encourages farmers to keep in contact with an "information pipeline." Other vehicles for distribution of market information include print and electronic newsletters, market information systems like DTN and marketing clubs where producers can practice the principles they are learning while incorporating the information they receive daily.

Mechanisms for Managing Risk

In addition, local elevators offer farmer-customers mechanisms for marketing and managing risk. Two of the more common mechanisms are storage and contracts.

The physical facilities of the local elevator give producers with insufficient on-farm storage the opportunity to hold grain off the market. Under Freedom to Farm, when the market is telling you to grow something, you need to sell it. But Freedom to Farm also calls for a consistent supply of grain— an even flow over time. Storage helps regulate the flow of grain to market.

Demand for storage escalated sharply this past year with lower grain prices. This prompted many elevators to build more storage. For example, North Central Farmers Elevator responded by facilitating the erection of a 280,000-bushel steel tank at one of our unit train loading sites. The tank and its aeration system are owned by a limited partnership of producers through a condominium association. One big advantage to "condo" storage is that the producer owns storage on the railhead, which is a salable asset.

Local elevators also offer various contracts as options to selling grain on the cash market. Today, more and more farmers are using contracts. Here's why. The cash price of grain is made up of two components: basis and futures. Many times, when basis levels are good, the futures levels aren't; and when futures levels are at a profitable level, the basis levels are wide and not very attractive. Used properly, grain contracts allow farmers to maximize each component of price.

North Central Farmers Elevator offers five types of grain sales contracts: delayed price, minimum price, basis fixed, futures fixed and forward price contract. (See sidebar for the applications of these common contracts.)

In recent years, local elevators have also assisted producers in managing risk by offering programs for financing the purchase of inputs to crop and livestock production— often at a more attractive rate of interest than traditional lending institutions.

Risk is further mitigated for the participating farmers in that crop insurance is usually required to obtain financing under most of these programs.

Looking Ahead

Although helping farmers has been a role of local elevators for decades, the future will hold new and more intense challenges in this regard. I predict the following will be true of local elevators prepared to meet these challenges:

- **Elevator staff will be valued as much, or more, for their ability to understand and convey marketing opportunities to the farmer as for their ability to receive and ship grain.**
- **More time will be invested in keeping on top of all the conditions that could affect world prices and in communicating these conditions to the farmer.**
- **More money will be invested in educational "opportunities" like toll-free numbers, seminars, the Internet and other means of distributing the information farmers need to market effectively and manage risk.**

For these local elevators the results will be well worth the resources required to produce them. We will enter the new century with a clientele and a base of business that is well prepared for the opportunities afforded by production agriculture in the year 2000 and beyond.

Editor's Note: North Central Farmers Elevator is a cooperatively-owned grain marketing and farm supply cooperative with 12 facilities operating in nine communities. The cooperative is based in Ipswich, SD.

SIDEBAR

Five common grain contracts offered by local elevators

1. **Delayed Price** – The delayed pricing marketing alternative is best suited to the seller of grain who desires the ability to deliver grain at his discretion, but wants to retain the ability to price the grain at a later date.
2. **Minimum Price** – The basic premise of the minimum price contract is that it offers the seller of the grain the ability to sell grain at a specific price, but also affords the seller the ability to benefit if futures market prices move higher after the sale is made.
3. **Basis Fixed** – This marketing alternative allows the seller of the grain the ability to capture a favorable basis market while still waiting to price the futures market portion of the sale.
4. **Futures Fixed** – This contract offers the seller of grain the ability to lock in the futures market portion of the pricing on a cash grain contract. The basis portion of the pricing on the cash grain contract will be completed at a later date.

5. Forward Price Contract – This contract allows the producer to lock in the total price of a commodity for delivery at a later time.

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