

Building a Marketing Plan and Executing



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Background

Fourth Generation, Century Farm in
Gettysburg, SD

- Diversified farm raising corn, seed wheat, soybeans, sunflowers, oats, alfalfa and forage
- Black angus cow/calf operation
- Traded grain and managed futures risk for CHS, Inc. in St. Paul, MN
- Write market analysis for DTN, Inc



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Agenda

- I. Building a Marketing Plan
 - A. Where to Start
 - B. What to Focus On
 - C. Timing
- II. Execution
 - A. Identifying the Market
 - a) When does the market want it?
 - B. Tools to Accomplish the Task
 - C. Storage Considerations
- III. Review
 - A. How Did We Do?



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Building a Marketing Plan



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Building a Marketing Plan

- Where to Start?
 - Any good marketing plan should start with a breakeven
 - Without accurate cost information, difficult to know what is a good price and what isn't
 - Lots of free resources online
 - Universities
 - Lenders



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Building a Marketing Plan

- The market doesn't care about my breakeven, why should I?
 - At the most basic level, need to know capital requirements to pay bills and stay solvent
 - A true breakeven helps identify costs many operations don't account for
 - Health/life insurance
 - Taxes
 - Return to Management



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Building a Marketing Plan

- Dryland Corn

Land Cost	\$100.24
Insecticide Trip	\$0.00
Fertilizer	\$100.44
Seed	\$86.57
Chemical	\$26.20
Crop Insurance	\$18.00
Fuel	\$5.27
Labor	\$15.70
Drying	\$2.60
Payments/Depreciation	\$41.29
Other	\$89.34
Total Cost	\$485.66
Cost Per Unit	\$3.74
Total Profit/Loss	\$247.22
Breakeven Yield	86.15

Product	Corn
46-0-0	\$40.81
28-0-0	\$0.00
11-52-0	\$0.10
0-0-60	\$0.00
Urea+AMS	\$30.50
Corn Starter	\$29.03
Spring Wheat Starter	\$0.00
Winter Wheat Starter	\$0.00
Total Costs	\$100.44

DKC 47-48	\$86.57
Harness Xtra	\$9.07



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Building a Marketing Plan

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Irrigation
Soil Sample
HSA
Land Taxes
Vehicle Taxes
Healthcare Premiums
Life Insurance
Mike and Monty Exit Payment
Storage
Return to Management CCT
Scale
Propane Tank
Auto Insurance
Umbrella Insurance
<input checked="" type="checkbox"/> Miscellaneous Costs
Total Costs



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Building a Marketing Plan

- Grass Hay

Yield	2.00	
Acres	525.75	
Production	1,052	
Average Cash Price	\$145.29	
Crop Revenue	\$290.58	
Other Revenue	\$0.00	
Total Revenue	\$290.58	
Land Cost	\$32.80	
Insecticide Trip	\$0.00	
Fertilizer	\$0.00	
Seed	\$0.00	
Chemical	\$0.00	
Crop Insurance	\$0.00	
Fuel	\$5.27	
Labor	\$15.70	
Drying	\$4.00	
Payments/Depreciation	\$169.26	
Other	\$67.55	
Total Cost	\$290.58	
Cost Per Unit	\$145.29	
Total Profit/Loss	\$0.00	
Breakeven Yield	2.00	

Payments/Depreciation
7530
RC260 Feed Wagon
RC270 Feed Wagon
6195R
Rowse Sickle Mower
6140R
560M Baler
Wheel Rake
Payloader
956 MoCo
New Holland 1475
60G
Bale Processor
7810
Bobcat
Service Pickup
Four Wheelers
Hay Trailers
Total Costs



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Building a Marketing Plan

- Once full breakeven is known time to separate variable from fixed
 - Fixed costs need to be paid even if we never turn a wheel
 - Identifying that dollar figure in total and per acre allows us to start making marketing decisions
 - First sales should go toward these known, fixed costs



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Building a Marketing Plan

- Revenue projection done using APH Yields
 - Always market conservatively using revenue guarantee*
 - If our revenue guarantee covers our breakeven yield, in a very strong position



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Building a Marketing Plan

- 150 bpa APH x \$5.50 = \$825.00
 - \$825.00 x 75% = \$618.75/ac
 - \$618.75/\$5.50 = 112.5 bpa
- Total Cost of \$485.66/ac
 - \$485.66/5.50 = 88.3 bpa
- Insurable difference of 24 bushels
 - Strong position to start the year with this crop



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Building a Marketing Plan

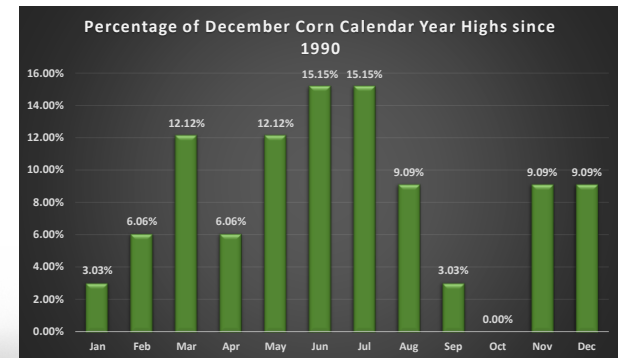
- After breakeven and revenue are “known” time for the cashflow
 - Identifying and scheduling large, known expenses helps plan capital needs
 - Takes pressure off selling grain because we need money
 - A marketing plan has to include logistics

	January	February	March	April	May	June	July	August	September	October	November	December	Total
		Fuel	Rent		Sprayer Payment		Tractor Payment	Fall Fertilizer	Crop Insurance		Seed Prepay	Chemical Prepay	
						Combine Payment					Bonuses		
Total		\$50,000	\$250,000		\$40,000		\$100,000	\$250,000	\$50,000		\$100,000	\$50,000	\$890,000
\$ 5.50		4,545	22,727		3,636		9,091	22,727	4,545		9,091	4,545	80,909
\$ 13.00		769	3,846		615		1,538	3,846	769		1,538	769	13,692
\$ 8.00		1,875	9,375		1,500		3,750	9,375	1,875		3,750	1,875	33,375

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Building a Marketing Plan

- We know when we need to sell grain, what about the market?



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Building a Marketing Plan

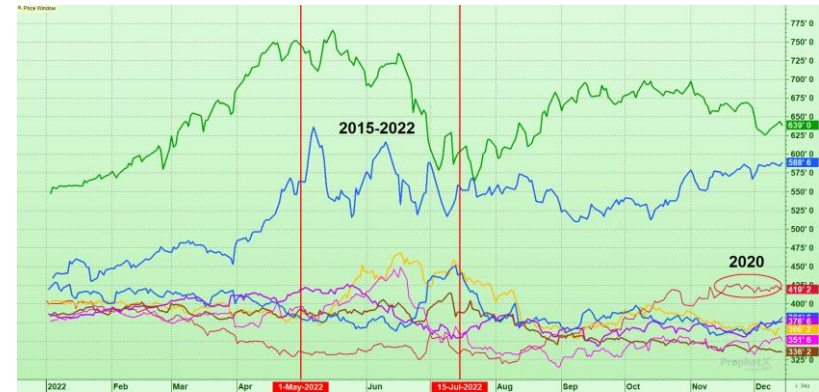
- We know when we need to sell grain, what about the market?
 - Since 2000:
 - December corn has set its calendar year highs between April-July 56% of the time
 - December corn has set its calendar year highs before August 70% of the time
 - December corn has set its calendar year highs before September 80% of the time



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Building a Marketing Plan

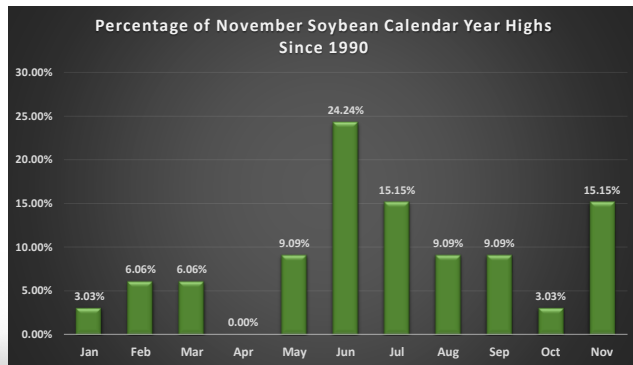
- December Corn Highs 2015-2022



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Building a Marketing Plan

- We know when we need to sell grain, what about the market?



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Building a Marketing Plan

- We know when we need to sell grain, what about the market?
 - Since 2000:
 - November soybeans have set its calendar year highs between April-July 52% of the time
 - November soybeans have set its calendar year highs before August 60% of the time
 - November soybeans have set its calendar year highs before September 65% of the time



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Building a Marketing Plan

- Price and volatility are highest when crop size is most uncertain
- Requires producers to utilize crop insurance as a marketing tool
- Make sales when the market usually makes highs, not when we have confidence in crop
- Plenty of re-ownership strategies available



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Building a Marketing Plan

- Recap
 - Establish detailed breakevens
 - Separate by fixed and variable expenses
 - Fixed expenses should be covered by first sales
 - Make revenue projections
 - Be conservative/realistic with yield and price but not pessimistic
 - Can lead us to being undersold
 - Identify cash flow needs for the year ahead
 - Use seasonality to our advantage



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Execution



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Execution

- Execution
 - First step is identifying the type of market we are in:
 - Carrying Charges
 - Flat
 - Inverted
 - Depending on the type of market we are in, the tools for execution will vary



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Execution

- Execution
 - Corn futures are inverted, disincentivizing storage of grain, especially with interest
 - New crop a bit better



	Month	Price		@CK23	@CN23	@SU23	@CZ23	@CH24	@CK24	@CN24
@CH23	Mar 23	678' 6	Market Carry	-2.00	-13.00	-63.25	-78.75	-72.50	-68.25	-70.25
			Cost of Carry	23.21	47.99	72.39	108.18	143.98	167.98	191.19
			% Full Carry	-8.62%	-27.09%	-87.38%	-72.79%	-50.35%	-40.63%	-36.74%
@CK23	May 23	676' 6	Market Carry	-11.66	-81.25	-76.75	-70.50	-66.25	-68.25	
			Cost of Carry	24.76	49.13	84.89	120.66	144.63	167.82	
			% Full Carry	-44.43%	-124.68%	-90.41%	-58.43%	-45.81%	-40.97%	
@CN23	Jul 23	665' 6	Market Carry		-50.25	-63.75	-59.50	-55.25	-57.25	
			Cost of Carry		24.24	59.81	95.39	119.24	142.30	
			% Full Carry		-207.32%	-109.93%	-62.38%	-46.34%	-40.23%	
@CU23	Sep 23	615' 4	Market Carry				-15.50	-9.25	-5.00	-7.00
			Cost of Carry				34.71	68.42	92.69	115.19
			% Full Carry				-44.66%	-13.32%	-5.39%	-6.08%
@CZ23	Dec 23	600' 0	Market Carry				8.25	10.50	8.50	
			Cost of Carry				34.44	57.53	79.86	
			% Full Carry				18.15%	18.25%	10.64%	
@CH24	Mar 24	606' 2	Market Carry				4.25		2.25	
			Cost of Carry					23.16	45.56	
			% Full Carry					18.35%	4.94%	

Execution

- Execution



Execution

- Execution
 - Soybean market also inverted on both ends of the curve. No incentive to store.

	Month	Price		@SK23	@SN23	@SQ23	@SU23	@SX23	@SF24	@SH24
@SH23	Mar 23	1521'6	Market Carry	-3.50	-9.50	-47.75	-118.00	-149.75	-146.00	-158.25
			Cost of Carry	32.62	67.45	84.59	101.73	135.45	168.07	202.35
			% Full Carry	-10.73%	-14.08%	-56.45%	-116.00%	-110.56%	-86.87%	-78.21%
@SK23	May 23	1518'2	Market Carry	-5.00	-14.25	-114.50	-146.25	-142.50	-154.75	
			Cost of Carry	34.79	51.91	69.03	102.74	135.29	169.53	
			% Full Carry	-17.25%	-85.25%	-165.88%	-142.39%	-105.33%	-91.28%	
@SN23	Jul 23	1512'2	Market Carry	-38.25	-108.50	-140.25	-136.50	-148.75		
			Cost of Carry	17.08	34.17	67.78	100.29	134.46		
			% Full Carry	-223.91%	-317.57%	-206.92%	-136.10%	-110.63%		
@SQ23	Aug 23	1474'0	Market Carry	-70.25	-102.00	-98.25	-110.50			
			Cost of Carry	16.86	50.03	82.12	115.84			
			% Full Carry	-416.70%	-203.87%	-119.64%	-95.39%			
@SU23	Sep 23	1403'6	Market Carry	-31.75	-28.00	-40.25				
			Cost of Carry	32.36	63.67	96.56				
			% Full Carry	-98.11%	-43.98%	-41.96%				
@SX23	Nov 23	1372'0	Market Carry	3.75	-9.50					
			Cost of Carry	30.95	63.47					
			% Full Carry	12.12%	-13.39%					
@SF24	Jan 24	1375'6	Market Carry	-12.25	32.57					
			Cost of Carry	32.57	-37.62%					
			% Full Carry							



Execution

- Execution



Execution

- Corn Market
 - Market is inverted on old crop, and with interest, is penalizing you to store
 - Need to have a strong opinion on basis appreciating to continue holding physical
 - Will basis continue to get stronger?
 - New crop corn is offering more carry
 - Hedge or sell against December futures and wait for carry or the market to tip its hand



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Execution

- Soybean Market
 - Also inverted with basis weakening as the export window closes
 - Very little incentive to store physical beans
 - Crush demand will be the only game in town very soon
 - The new crop portion of the curve is paying a little to store beans to January, then nothing
 - Need to calculate harvest logistics early and often
 - What can I store? What can't I?



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Execution

- Hedge-to-Arrive vs. Futures
 - Both have their merits
 - HTA puts margin risk in destination's account
 - Locks delivery location and possible basis appreciation
 - Futures keeps full basis potential in producer pocket
 - Subject to margin risk
 - Prefer a blended approach with HTA's spread to multiple destinations
 - Utilize futures early when production risk is high
 - Options need to be utilized but premiums need to be weighed against lack of margin



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Execution

- Basis
 - Always hesitant to sell cash or set basis early in the marketing year unless delivering at harvest
 - End users typically keep basis wide early in hopes of buying "easy" bushels
 - Basis usually improves post-harvest, requiring that portion to be left open on stored bushels
 - Knowing average basis for your area key
 - Have to have an opinion about current basis and what is realistic for appreciation
 - The more conversation had with end users, the better
 - This especially applies to old crop at present



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Conclusion/Discussion



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Conclusion

- Review
 - How Did We Do?
 - Imperative to look back at the original marketing plan when all grain is gone to gauge the year
 - What worked well?
 - What didn't work well?
 - Where were our assumptions correct?
 - Where were our assumptions wrong?
 - » Why were they wrong?
 - Discuss your marketing plan with a trusted peer or advisor
 - Pride is a dangerous vice in grain marketing



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Conclusion

- Review
 - Produce accurate, honest breakevens
 - The more detail, the better
 - Separate by variable and fixed costs
 - Be realistic with revenue calculations
 - Develop a rough cash flow
 - Identify capital needs vs. typical seasonal patterns
 - Determine when the market wants grain
 - Pick your tool and execute
 - Manage basis separate from futures to maximize cash price



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Conclusion

- Review
 - Add value to any commodity you can
 - Seed, NGMO, food grade, etc.
 - Utilize AOG clauses with specialty contracts to give confidence in marketing
 - Work with a trusted source who can provide transparency to these markets
 - Don't worry about re-ownership until you're over 50% marketed



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Conclusion

- Review
 - Have to stop treating marketing like gambling
 - Farming is not a game, neither is marketing
 - The idea of winners and losers is a mind-set of the past
 - Comparison is the thief of joy
 - Yields, Price, Equipment
 - Use marketing and sound financial management to bring peace of mind



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Thank You

Questions?



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