



SOUTHERN

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GRDC™ GROWNOTES™



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GRAINS RESEARCH
& DEVELOPMENT
CORPORATION

CEREAL RYE

SECTION 15

MARKETING

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Marketing

Key messages

- Utilise the knowledge and resources provided by local grower groups.
- Know and understand key marketing principles:
- Expand the sales window
- You can't sell what you don't have
- Don't lock in a loss
- Don't be a forced seller
- If increasing production risk, take price risk off the table
- Separate the pricing decision from the delivery decision
- Sell valued commodities; not undervalued commodities
- Don't leave money on the table
- Read market signals
- Sell when there is buyer appetite
- Separate the delivery decision from the pricing decision

The final step in generating farm income is converting the tonnes of grain produced per hectare into dollars at the farm gate. This section provides best in-class marketing guidelines for managing price variability to protect income and cash flow.

15.1 Links to industry boards

The Cereal Rye Growers' Association industry body operated in the early 2000s. It was the industry's only representative body and in its time managed to achieve significant benefits for millers, processors and growers. Due to a lack of growers and funding, it has since closed.¹ However, rye growers can look to their local cereal grower groups for information and resources.

15.1.1 Mackillop Farm Management Group

[Mackillop Farm Management Group](#) develops and delivers innovative and sustainable farming practices through collaborative research, communication and extension for the benefit of members and the agricultural industry across the South East of South Australia, Western Victoria and beyond.

Objectives

1. To be the leading provider of Research, development and extension in the "region".
2. To drive adoption and innovation from R & D.
3. To support the development of independent research capabilities.
4. To be the leading organization representing mixed farming in the region.

These objectives are underpinned by two operational objectives.

1. Operate as a professional organisation.
2. To have a highly recognised and respected brand which delivers value to members.

¹ ABC (2003) <http://www.abc.net.au/site-archive/rural/sa/stories/s776029.htm>

15.1.2 Riverine Plains

Riverine Plains Inc. is a not for profit, farming systems research and extension organisation that services cropping and mixed farmers in north-east Victoria and southern NSW.

Riverine Plains Inc. has a membership base of over 315 farming families spread across a wide geographical area. Members farm as far north as Lockhart and Henty in NSW, and as far south as Euroa and Shepparton in Victoria. The majority of members are dryland farmers, though a number also have access to irrigation.

The geographical area Riverine Plains Inc. services is known as the Riverine Plain, and it is from this that the group takes its name.

15.1.3 Southern Farming Systems (SFS)

Southern Farming Systems (SFS) is a farm driven, non-profit organisation helping higher rainfall farmers with practical research and information that produces sustainable results.

In 1995 the six founding members of (SFS) got together to find ways of making farming in the higher rainfall zone more profitable. Their problems were often different from those faced by farmers in other areas and different solutions would be required.

They set out to help themselves and in so doing created an organisation that now boasts 600 members in five branches across two states. It maintains international affiliations and has a strong link with the Foundation for Arable Research in New Zealand.

The success of (SFS) comes from strict adherence to the vision and objectives established by those pioneers. Its focus is totally on the higher rainfall zone. All research is of a practical nature and designed to produce long-term solutions to farmers.

It provides a network for its members to share ideas and experiences. Strong partnerships have been established with research and extension agencies, and agribusiness. These partnerships are hugely beneficial, but at all times Southern Farming Systems remains an independent provider of quality information.

Early members saw control of waterlogging in cropping paddocks as critically important. They felt it would give the greatest return in the short term and decided to concentrate resources on this problem.

The result was the adaptation of raised bed technology to broadacre cropping. This system has been implemented across approximately 70,000 ha of the higher rainfall zone, contributing to improved crop yields and farm profitability.²

15.1.4 Tasmanian Farmers and Graziers Association (TFGA)

Those who work within this vibrant industry require a strong bond and sound representation. These are the strengths of the Tasmanian Farmers and Graziers Association (TFGA), the state's peak agricultural body.

The TFGA represents big and small farms, making no distinction among farms or farmers. The TFGA's role is to provide a single, strong voice to deal with governments at all levels and with other industry bodies. Their prime aim is to ensure that the agricultural base of the state remains competitive and profitable.

The TFGA is committed to promoting the vital contribution the agricultural sector makes to Tasmania's environmental, social and economic fabric.

² Southern Farming Systems, <http://www.sfs.org.au/what-we-do>

Operationally, the TFGA is divided into separate councils that deal with each of the major commodity areas: meat, wool, dairy, vegetables and other agriculture. Those commodity councils meet regularly on a statewide basis. Each has a voice on the board of the TFGA. As well, standing committees deal with cross-commodity issues such as climate change, biosecurity, water and weeds.

Farming is a traditional enterprise that also has to be as modern as tomorrow. In a country with such diverse climatic and geographical challenges as Australia's, the technology to improve farming practices has to be both up-to-date and evolving. Part of the TFGA's charter is to keep its members informed, using modern communications.³

15.1.5 Mallee Sustainable Farming (MSF)

Mallee Sustainable Farming (MSF) Inc. is a farmer driven organisation delivering research and extension services to the less than 350 mm rainfall Mallee cropping regions of New South Wales, Victoria and South Australia. MSF operates within a region of over four million hectares, extending beyond Balranald in the east to Murray Bridge in the west.

MSF formed in 1997 in response to a recognition that conservation farming practices had not been widely adopted across the region. Therefore, there was a need to identify the issues restricting the adoption of technology that would enhance the development of profitable and sustainable farming systems.

Since it was formed, MSF has achieved a great deal. Increases in farm profitability have been observed as a result of MSF activities, along with environmental and social gains. MSF continues to be guided by farmer members to meet their information needs, whether in the sphere of cereal cropping or livestock management.⁴

15.1.6 Hart Field Site SA

Hart is South Australia's premier agronomic field site, managed by farmers to provide independent information and skills to the industry.

Since 1982, the Hart Field Site Group has been conducting cropping trials at Hart in the Mid-North of SA. These trials are focussed on being relevant to the broad-acre farming community and are conducted independently. The substantial trials site at Hart is available for inspection throughout each growing season at Hart Crop Walks and Field Days and for student / farming group tours by appointment. Results are published each year in the comprehensive Trials Results book. Hart also facilitate various seminars and workshops.⁵

15.1.7 Birchop Cropping Group

The Birchop Cropping Group Inc. (BCG) improves the prosperity of Australian broadacre farmers through applied science-based research and extension. Birchop Cropping Group Inc. (BCG) is a not-for-profit agricultural research and extension organisation led by farmers from the Wimmera and Mallee regions of Victoria. Recognised both nationally and internationally by the industry as a credible, independent and innovative organisation, BCG's research and communication activities provide evidence, support and tools for improving farm management practices and profitability.⁶

15.1.8 Victorian No-Till Farming Association

The Victorian No-Till Farmers Association is a leading voice in south-east Australia for the use of no-till farming systems. The association started in 2002 after a small group of Wimmera farmers joined forces to discuss the benefits they were seeing using

3 Tasmanian Farmers and Graziers Association, <http://www.tfga.com.au/>

4 Malle Sustainable Farming Inc., <http://www.msfp.org.au/>

5 Hart Field Site Group, <http://www.hartfieldsite.org.au/>

6 Birchop Cropping Group Inc., <http://www.bcg.org.au/>

no-till farming techniques. The group's success quickly spread and Vic No-Till went from strength to strength as more farmers saw the benefits of no-till and zero-tillage farming.

The no-till farming pioneers in Victoria paved the way for the next generation who have a thirst for knowledge and farm improvement. Vic No-Till's farmers are implementing soil health principles to build the robustness and resilience of their farming systems. No-Till and retained stubble retention farming systems are not only environmentally sustainable, they are profitable and they produce a product that is nutrient dense.

Vic No-Till has had more than a decade's experience questioning farmers on what they want, tackling tough issues and delivering [no-till farming events](#), such as demonstrations, crop walks and conferences. The association prides itself on being a valuable education and mentoring resource for farmers in Victoria, and the fact that growers can leave Vic No-Till's events and immediately implement the ideas they take away with them.

Vic No-Till is always looking for [new members](#)—sign up at their website. ⁷

15.1.9 South Australian No Till Farming Association (SANTFA)

[SA No Till Farming Association](#) (SANTFA) continues to grow in size and scale as an influential organisation that provides high quality, challenging information on no-till systems. (SANTFA) is working to build their project work, business structures and human resources into a dynamic and exciting organisation. (SANTFA) will remain farmer based, farmer driven and fiercely independent.

(SANTFA) works to increase the area of no-till and to attract new supporters to conservation farming. (SANTFA) is committed to no-till systems and to pushing the limits on equipment design and system advances, and will conduct and coordinate independent research through a range of contractors. However, the association recognises that they are part of a wider farming systems focus in many regions. In this context, they will seek to be a significant influence on research conducted by others, and take care not to duplicate the activities of existing Farming Systems Groups.

(SANTFA) will provide education and information for growers being introduced to no-till as well as growers who require advanced support. In both cases, the association will continue to focus on options that enable members to meet the triple bottom line outcomes of economic, environmental and social sustainability.

15.2 Selling principles

The aim of a selling program is to achieve a profitable average price (the target price) across the entire business. This requires managing several factors that are difficult to quantify to establish the target price and then working towards achieving that target price.

These factors include the amount of grain available to sell (production variability), the final cost of that production, and the future prices that may result. Australian farm-gate prices are subject to volatility caused by a range of global factors that are beyond our control and difficult to predict.

The skills that growers have developed to manage variability and costs can be used to manage and overcome price uncertainty.

15.2.1 Be prepared

Being prepared and having a selling plan are essential for managing uncertainty. The steps involved are forming a selling strategy, and having a plan for effective execution of sales. A selling strategy consists of when and how to sell.

⁷ Victorian No-Till Farming Association, <http://www.vicnotill.com.au/>

Expand the sales window

By expanding the period in which growers can make grain sales, they are able to capture price opportunities in volatility observed year to year and achieve higher overall returns.

When to sell

This requires an understanding of the farm’s internal business factors including:

- Production risk.
- A target price based on cost of production and a desired profit margin.
- Business cash-flow requirements.

How to sell?

This depends more on external market factors including:

- Time of year, which determines the pricing method.
- Market access, which determines where to sell.
- Relative value, which determines what to sell.

The key selling principles when considering sales during the growing season are described in Figure 1.



Figure 1: Grower commodity selling-principles timeline. The illustration demonstrates the key selling principles throughout the production cycle of the crop.

Source: Profarmer Australia

15.2.2 Establishing the business risk profile—when to sell

Establishing your business risk profile allows the development of target price ranges for each commodity and provides confidence to sell when the opportunity arises. Typical business circumstances of a cropping enterprise, and how the risks may be quantified during the production cycle, are described in Figure 2.

When does a growers sell their grain?

This decision is dependent on:

- Does the production risk allow sales? And what proportion of production?
- Is the price profitable?
- Are business cash requirements being met?

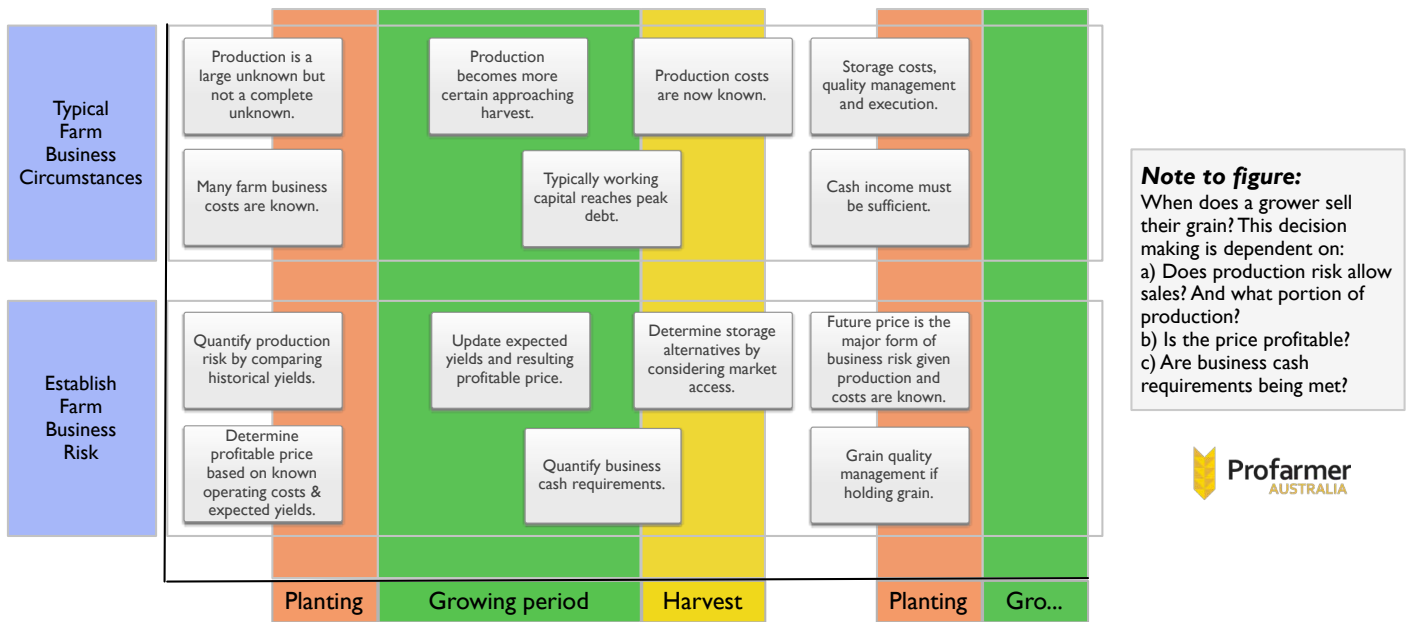


Figure 2: Typical farm business circumstances and risk.

Source: Profarmer Australia

15.2.3 Production risk profile of the farm

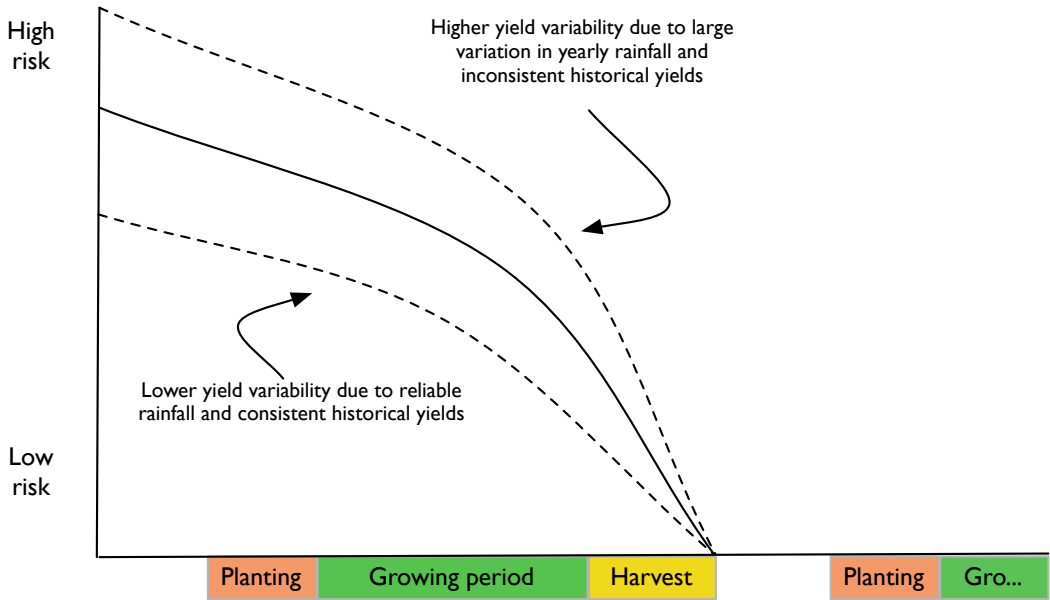
Production risk is the level of certainty around producing a crop and is influenced by location (climate and soil type), crop type, crop management, and time of the year.

You can't sell what you don't have

Do not increase business risk by overcommitting production.

Establish a production risk profile (Figure 3) by:

- Collating historical average yields for each crop type and a below-average and above-average range.
- Assessing the likelihood of achieving average based on recent seasonal conditions and seasonal outlook.
- Revising production outlooks as the season progresses..



Note to figure:
The quantity of crop grown is a large unknown early in the year however not a complete unknown. 'You can't sell what you don't have' but it is important to compare historical yields to get a true indication of production risk. This risk reduces as the season progresses and yield becomes more certain. Businesses will face varying production risk levels at any given point in time with consideration to rainfall, yield potential, soil type, commodity etc.



Figure 3: Typical production risk profile of a farm operation.

Source: Profarmer Australia

The quantity of crop grown is a large unknown early in the year, however not a complete unknown. "You can't sell what you don't have" but it is important to compare historical yields to get a true indication of production risk. This risk reduces as the season progresses and yield becomes more certain. Businesses will face varying production risk levels at any given point in time with consideration to rainfall, yield potential, soil type, commodity etc.

15.2.4 Farm costs in their entirety, variable and fixed costs (establishing a target price)

A profitable commodity target price is the cost of production per tonne plus a desired profit margin. It is essential to know the cost of production per tonne for the farm business.

Don't lock in a loss

If committing production ahead of harvest, ensure that the price is profitable.

Steps to calculate an estimated profitable price based on total cost of production and a range of yield scenarios are provided in Figure 4.

Estimating cost of production - Wheat

Planted Area	1,200 ha
Estimate Yield	2.85 t/ha
Estimated Production	3,420 t

Fixed costs

Insurance and General Expenses	\$100,000
Finance	\$80,000
Depreciation/Capital Replacement	\$70,000
Drawings	\$60,000
Other	\$30,000

Variable costs

Seed and sowing	\$48,000
Fertiliser and application	\$156,000
Herbicide and application	\$78,000
Insect/fungicide and application	\$36,000
Harvest costs	\$48,000
Crop insurance	\$18,000

Total fixed and variable costs	\$724,000
Per Tonne Equivalent (Total costs + Estimated production)	\$212 /t

Per tonne costs

Levies	\$3 /t
Cartage	\$12 /t
Freight to Port	\$22 /t
Total per tonne costs	\$37 /t
Cost of production Port track equiv	\$248.70
Target profit (ie 20%)	\$50.00

Target price (port equiv)	\$298.70
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Step 1: Estimate your production potential. The more uncertain your production is, the more conservative the yield estimate should be. As yield falls, your cost of production per tonne will rise.

Step 2: Attribute your fixed farm business costs. In this instance if 1,200 ha reflects 1/3 of the farm enterprise, we have attributed 1/3 fixed costs. There are a number of methods for doing this (see M Krause "Farming your Business") but the most important thing is that in the end all costs are accounted for.

Step 3: Calculate all the variable costs attributed to producing that crop. This can also be expressed as \$ per ha x planted area.

Step 4: Add together fixed and variable costs and divide by estimated production

Step 5: Add on the "per tonne" costs like levies and freight.

Step 6: Add the "per tonne" costs to the fixed and variable per tonne costs calculated at step 4.

Step 7: Add a desired profit margin to arrive at the port equivalent target profitable price.

Figure 4: Steps to calculate an estimated profitable price for grain.

Source: Profarmer Australia

The GRDC [Farming the Business](#) manual also provides a cost-of production template and tips on skills required for grain selling, as opposed to grain marketing.⁸

15.2.5 Income requirements


Understanding farm business cash flow requirements and peak cash debt enables grain sales to be timed so that cash is available when required. This prevents having to sell grain below the target price to satisfy a need for cash.

Don't be a forced seller

Be ahead of cash requirements to avoid selling in unfavourable markets. Price variability also means growers who are not organised with their cash flow may risk becoming a forced seller in unfavourable markets.

VIDEOS

WATCH: ['Farming the Business'](#) eBook resources.



8 M Krause (2014) Farming the business. Sowing for your future. GRDC, <http://www.grdc.com.au/FarmingTheBusiness>

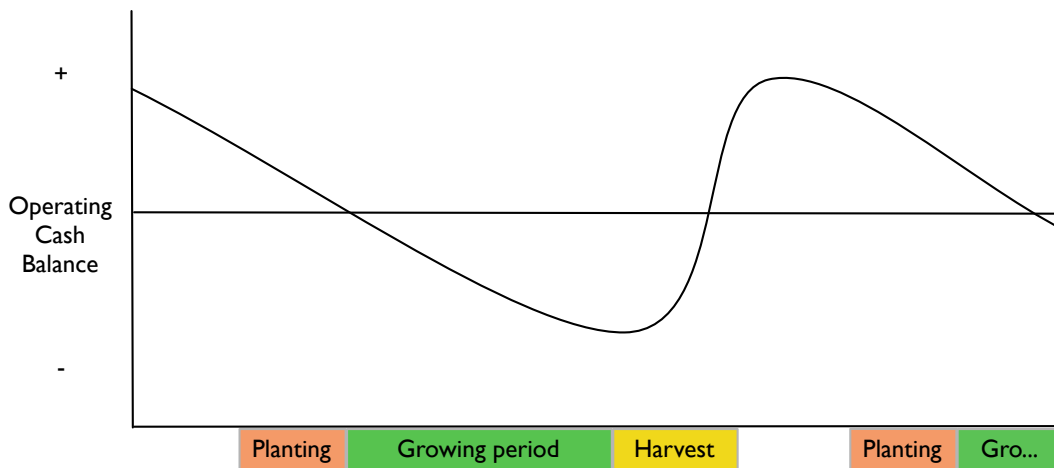
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As the market falls, growers need to sell greater volumes of grain in order to achieve the same cash flow outcome. This reduces their ability to capture any favourable price moves that may eventuate later in the season.

A typical cash flow to grow a crop is illustrated in Figure 5. Costs are incurred upfront and during the growing season, with peak working capital debt incurred at or before harvest. This will vary depending on circumstance and enterprise mix. Figure 6 demonstrates how managing sales can change the farm's cash balance.



Note to figure:
The chart illustrates the operating cash flow of a typical farm assuming a heavy reliance on cash sales at harvest. Costs are incurred during the season to grow the crop, resulting in peak operating debt levels at or near harvest. Hence at harvest there is often a cash injection required for the business. An effective marketing plan will ensure a grower is 'not a forced seller' in order to generate cash flow.



In this scenario peak cash surplus starts higher and peak cash debt is lower

Figure 5: Typical farm operating cash balance, assuming harvest cash sales. In this scenario, peak cash surplus starts higher and peak cash debt is lower.

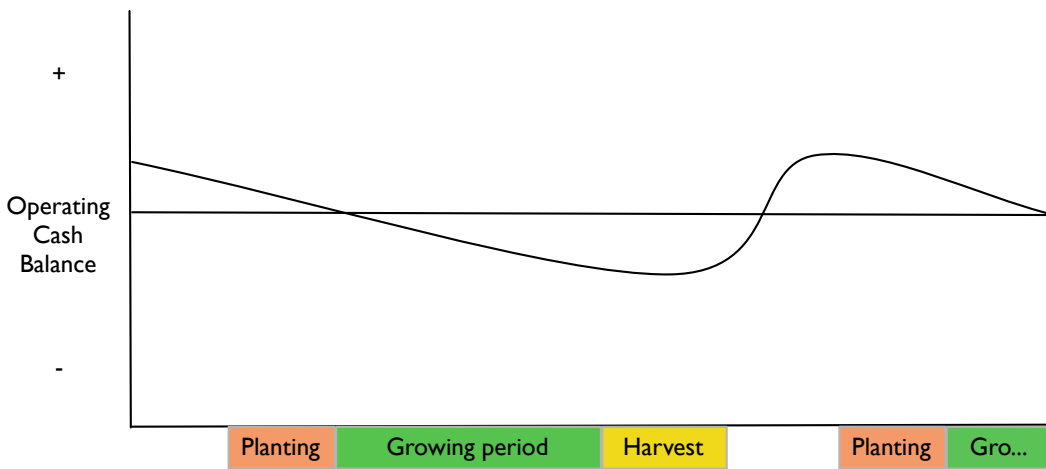
Source: Profarmer Australia

The chart above illustrates the operating cash flow of a typical farm assuming a heavy reliance on cash sales at harvest. Costs are incurred during the season to grow the crop, resulting in peak operating debt levels at or near harvest. Hence, at harvest there is often a cash injection required for the business. An effective marketing plan will ensure a grower is “not a forced seller” in order to generate cash flow.

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Note to figure:
By spreading sales throughout the year a grower may not be as reliant on executing sales at harvest time in order to generate required cash flow for the business. This provides a greater ability to capture pricing opportunities in contrast to executing sales in order to fulfil cash requirements.



In this scenario peak cash surplus starts lower and peak cash debt is higher

Figure 6: Typical farm operating cash balance, with cash sales spread throughout the year. In this scenario, peak cash surplus starts lower and peak cash debt is higher.

Source: Profarmer Australia

By spreading sales throughout the year, a grower may not be as reliant on executing sales at harvest time in order to generate required cash flow for the business. This provides a greater ability to capture pricing opportunities rather than selling in order to fulfil cash requirements.

Summary

These when-to-sell steps result in an estimated production tonnage and the risk associated with that tonnage, a target price range for each commodity, and the time of year when cash is most needed.

15.2.6 Managing your price—how to sell

This is the second part of the selling strategy.

Methods of price management

The pricing methods for products provide varying levels of price-risk coverage.

Figure 7 provides a summary of when different methods of price management are suited for the majority of farm businesses.

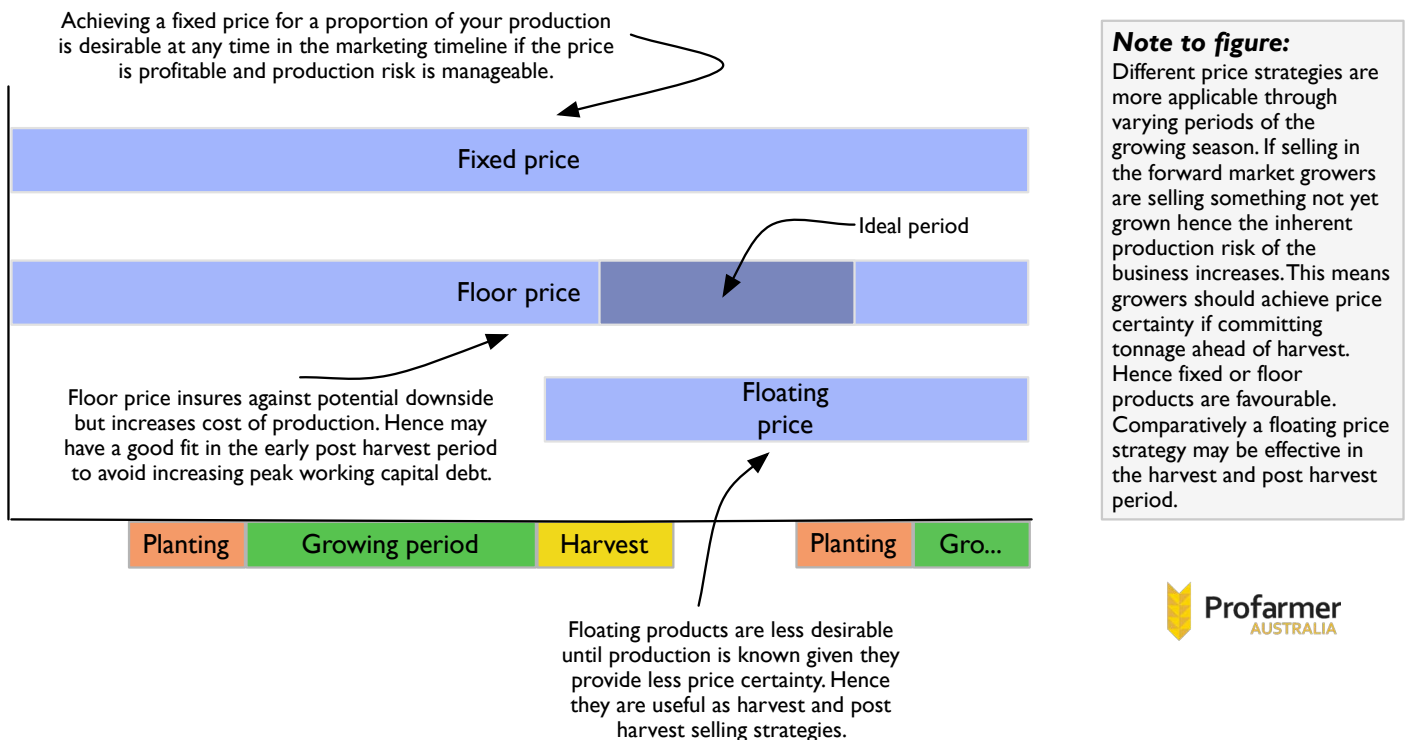


Figure 7: Price strategy timeline through the growing season.

Source: Profarmer Australia

Different price strategies are more applicable through varying periods of the growing season. If selling in the forward market growers are selling something not yet grown, hence the inherent production risk of the business increases. This means growers should achieve price certainty if committing tonnage ahead of harvest. Therefore fixed or floor products are favourable. Comparatively, a floating price strategy may be effective in the harvest and post-harvest period.

If increasing production risk, take price risk off the table

When committing unknown production, price certainty should be achieved to avoid increasing overall business risk.

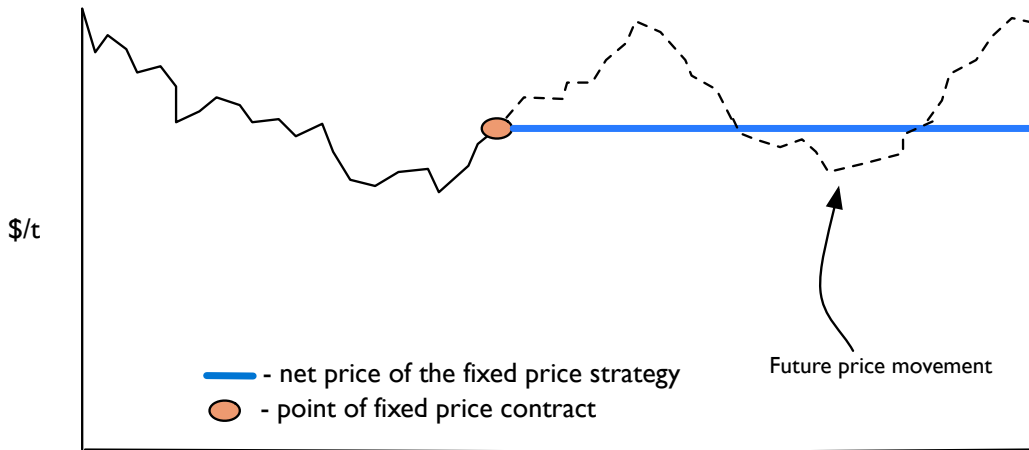
Separate the pricing decision from the delivery decision

Most commodities can be sold at any time with negotiable delivery timeframes, so price management is not determined by delivery.

Fixed price

A fixed price is achieved via cash sales and/or selling a futures position (swaps) (Figure 8). A fixed price provides some certainty around expected revenue from a sale because the price is largely a known, except when there is a floating component

in the price (e.g. a multi-grade cash contract with floating spreads or a floating basis component on futures positions).



Note to figure:
Fixed price product locks in price and provides certainty over what revenue will be generated regardless of future price movement.



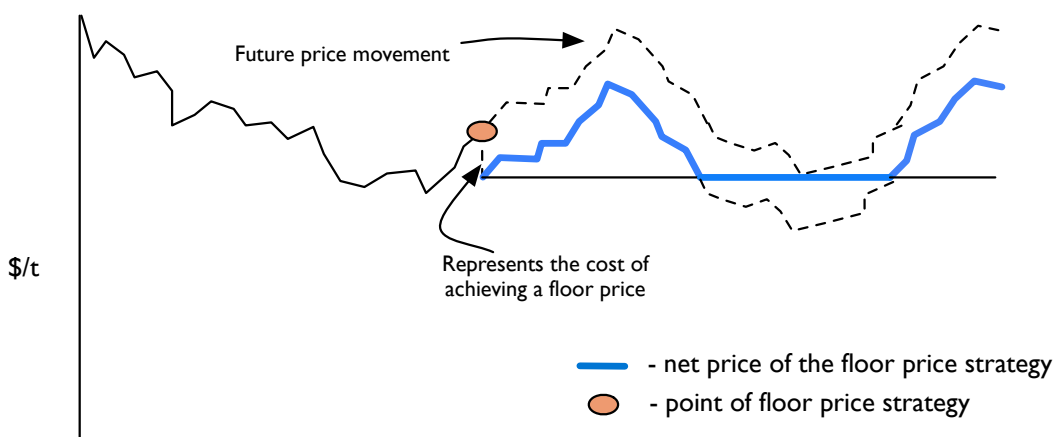
Figure 8: Fixed price strategy.

Source: Profarmer Australia

Fixed price provides certainty over what revenue will be generated regardless of future price movement.

Floor price

Floor price strategies can be achieved by utilising “options” on a relevant futures exchange (if one exists), or via a managed sales program product by a third party (i.e. a pool with a defined floor price strategy). This pricing method protects against potential future downside while capturing any upside (Figure 9). The disadvantage is that the price “insurance” has a cost, which adds to the farm business cost of production.



Note to figure:
A floor price strategy insures against potential future downside in price while allowing price gains in the event of future price rallies.



Figure 9: Floor price strategy.

Source: Profarmer Australia

A floor price strategy insures against potential future downside in price while allowing price gains in the event of future price rallies.

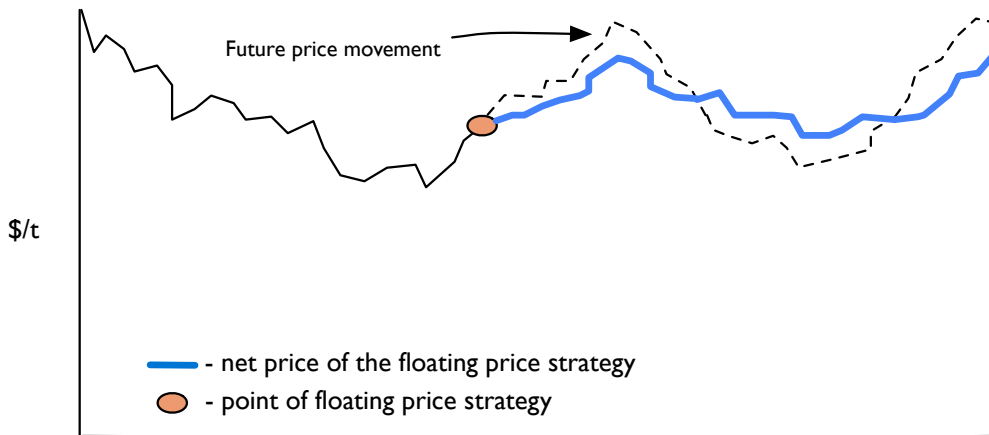
Floating price

Many of the pools or managed sales programs are a floating price, where the net price received will move both up and down with the future movement in price (Figure 10). Floating price products provide the least price certainty and are best suited for use at or after harvest rather than pre-harvest.

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Note to figure:
A floating price will move to some extent with future price movements.



Figure 10: Floating price strategy.

Source: Profarmer Australia

A floating price will move to some extent with future price movements.

Summary

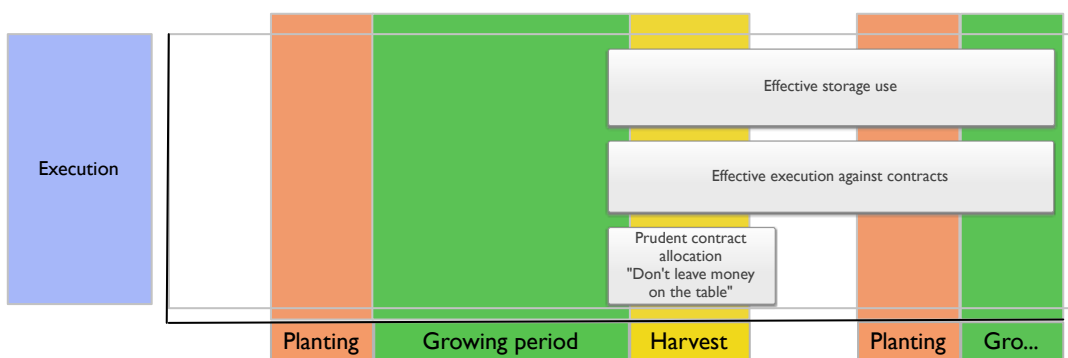
Fixed price strategies include physical cash sales or futures products and provide the most price certainty; however, production risk must be considered.

Floor price strategies include options or floor price pools. They provide a minimum price with upside potential and rely less on production certainty; however, they cost more.

Floating price strategies provide minimal price certainty and they are best used after harvest.

15.2.7 Ensuring access to markets

Once the selling strategy is organised, the storage and delivery of commodities must be planned to ensure timely access to markets and execution of sales. At some point, growers need to deliver the commodity to market. Planning on where to store the commodity is important in ensuring access to the market that is likely to yield the highest return (Figure 11).



Note to figure:
Once a grower has made the decision to sell the question becomes how they achieve this? The decision on how to sell is dependent on:
a) Time of the year determines the pricing method
b) Market Access determines where to sell.
c) Relative value determines what to sell.



Figure 11: Effective storage decisions.

Source: Profarmer Australia

Once a grower has made the decision to sell, the question becomes how do they achieve this?

The decision on how to sell is dependent on the following:

- Time of the year determines the pricing method.
- Market Access determines where to sell.
- Relative value determines what to sell.

Storage and logistics

Return on investment from grain handling and storage expenses is optimised when storage is considered in light of market access to maximise returns, as well as harvest logistics.

Storage alternatives include variations around the bulk handling system, private off-farm storage, and on-farm storage. Delivery and quality management are key considerations in deciding where to store your commodity (Figure 12).

Harvest is the first priority

Getting the crop into the bin is most critical to business success during harvest. Therefore, selling should be planned to allow focus on harvest.

Bulk export commodities requiring significant quality management are best suited to the bulk-handling system. Commodities destined for the domestic end-user market (e.g. feedlot, processor, or container packer) may be more suited to on-farm or private storage to increase delivery flexibility.

Storing commodities on-farm requires prudent quality management to ensure delivery at agreed specifications. Storing on-farm can expose the business to high risk if this aspect is not well planned. Penalties for out-of-specification grain on arrival at a buyer's weighbridge can be expensive. The buyer has no obligation to accept delivery of an out-of-specification load. This means that the grower may have to suffer the cost of taking the load elsewhere, while also potentially finding a new buyer. This will be costly for the business.

On-farm storage also requires prudent delivery management to ensure that the buyer receives commodities on time with appropriate weighbridge and sampling tickets.

Storage is all about market access

Storage decisions depend on quality management and expected markets.

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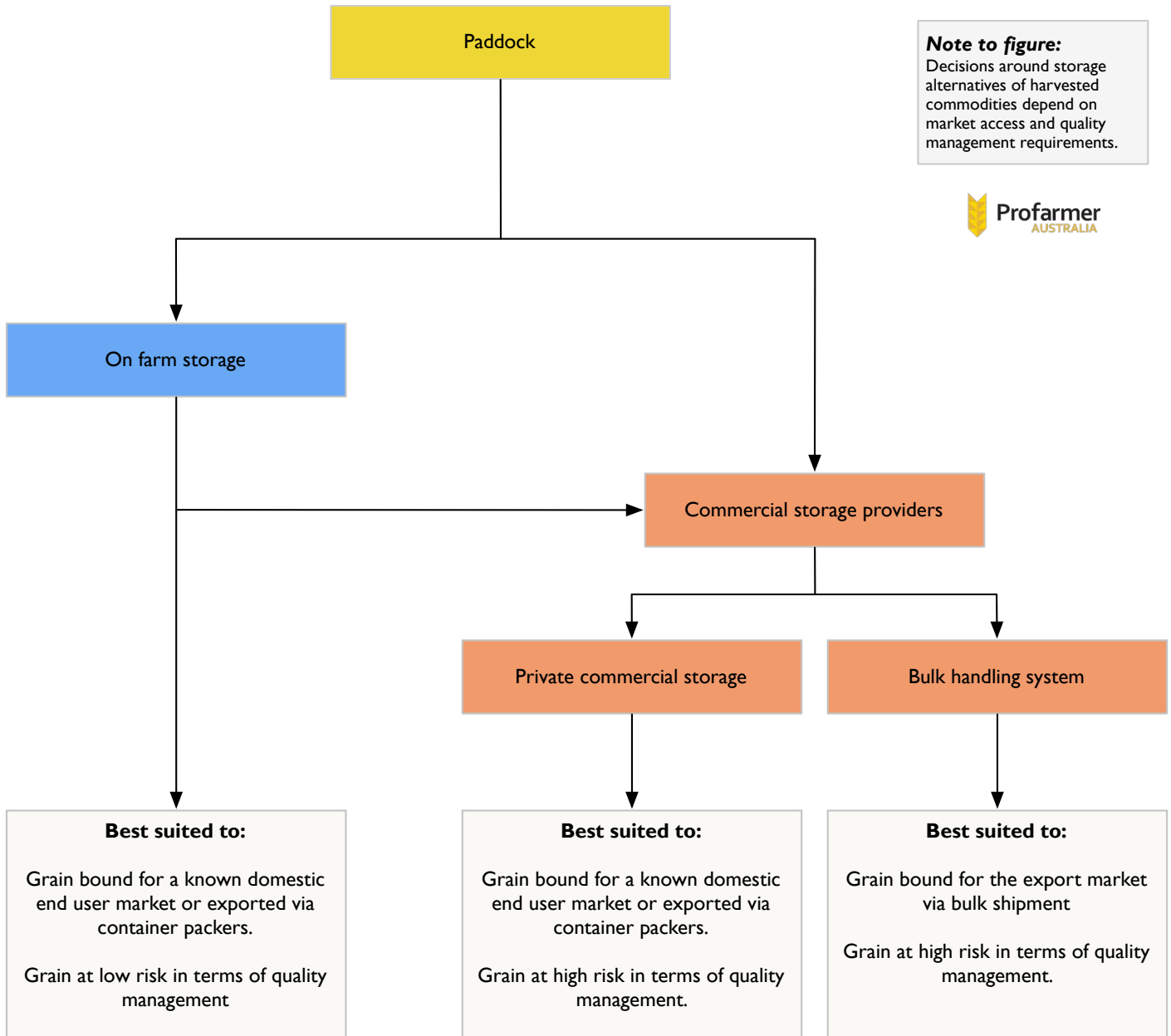


Figure 12: Grain storage decision making.

Source: Profarmer Australia

Decisions around storage alternatives of harvested commodities depend on market access and quality management requirements.

For more information about on-farm storage alternatives and economics, see Section 13: Storage.

Cost of carrying grain

Storing grain to access sales opportunities post-harvest invokes a cost to “carry” grain. Price targets for carried grain need to account for the cost of carry.

Carry costs per month are typically \$3–\$4/t, consisting of:

- monthly storage fee charged by a commercial provider (typically ~\$1.50–\$2.00/t); and
- monthly interest associated with having wealth tied up in grain rather than cash or against debt (~\$1.50–\$2.00/t, depending on the price of the commodity and interest rates).

The price of carried grain therefore needs to be \$3–\$4/t per month higher than was offered at harvest. The cost of carry applies to storing grain on-farm because there is a cost of capital invested in the farm storage plus the interest component. A reasonable assumption is \$3–\$4/t per month for on-farm storage.

Carrying grain is not free

The cost of carrying grain needs to be accounted for if holding grain and selling it after harvest is part of the selling strategy. If selling a cash contract with deferred delivery, a carry charge can be negotiated into the contract.

Summary

Optimising farm-gate returns involves planning the appropriate storage strategy for each commodity to improve market access and cover carry costs in pricing decisions.

15.2.8 Executing tonnes into cash

Below are guidelines for converting the selling and storage strategy into cash by effective execution of sales.

Set up the tool box

Selling opportunities can be captured when they arise by assembling the necessary tools in advance.

The toolbox includes:

1. Timely information. This is critical for awareness of selling opportunities and includes: market information provided by independent parties; effective price discovery including indicative bids, firm bids, and trade prices; and other market information pertinent to the particular commodity.
2. Professional services. Grain-selling professional service offerings and cost structures vary considerably. An effective grain-selling professional will put their clients' best interests first by not having conflicts of interest and by investing time in the relationship. Return on investment for the farm business through improved farm-gate prices is obtained by accessing timely information, greater market knowledge and greater market access from the professional service.
3. Futures account and bank swap facility. These accounts provide access to global futures markets. Hedging futures markets is not for everyone; however, strategies that utilise exchanges such as CBOT (Chicago Board of Trade) can add significant value.

How to sell for cash

Like any market transaction, a cash grain transaction occurs when a bid by the buyer is matched by an offer from the seller.

Cash contracts are made up of the following components, with each component requiring a level of risk management (Figure 13):

- Price. Future price is largely unpredictable; hence, devising a selling plan to put current prices into the context of the farm business is critical to manage price risk.
- Quantity and quality. When entering a cash contract, you are committing to delivery of the nominated amount of grain at the quality specified. Therefore, production and quality risk must be managed.
- Delivery terms. Timing of title transfer from the grower to the buyer is agreed at time of contracting. If this requires delivery direct to end users, it relies on prudent execution management to ensure delivery within the contracted period.
- Payment terms. In Australia, the traditional method of contracting requires title of grain to be transferred ahead of payment; hence, counterparty risk must be managed.

MORE INFORMATION

[Current financial members of Grain Trade Australia, including buyers, independent information providers, brokers, agents, and banks providing over-the-counter grain derivative products](#)

[Commodity futures brokers](#)

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Timing of delivery (title transfer) is agreed upon at time of contracting. Hence growers negotiate execution and storage risk they may have to manage.

Quantity (tonnage) and Quality (bin grade) determine the actuals of your commitment. Production and execution risk must be managed.

Price is negotiable at time of contracting.

Price point is important as it determines where in the supply chain the transaction will occur and so what costs will come out of the price before the growers net return.

Whilst the majority of transactions are on the premise that title of grain is transferred ahead of payment this is negotiable. Managing counterparty risk is critical.

GTA Contract No.3 CONTRACT CONFIRMATION

GTA Trade Rules and Dispute Resolution Rules apply to this contract

This Contract is confirmation between:

BUYER

Contract No: _____

Name: _____

Company: _____

Address: _____

Buyer ABN: _____

NGR No: _____

SELLER

Contract No: _____

Name: _____

Company: _____

Address: _____

Seller ABN: _____

NGR No: _____



The Buyer and Seller agree to transact this Contract subject to the following Terms and Conditions:

Commodity: _____ GTA Commodity Reference: _____

Grade: _____ Inspection: _____ (Origin - Destination)

Quantity: _____ Tolerance: _____ (Refer over)

Packaging: _____ Weights: _____ (Origin - Destination)

Price: _____ Excl/Inc/Free GST _____

Price Basis: _____

Delivery/Shipment Period: _____ (Delivered, Shipped, Free In Store, Free On Board, Ex-Farm, etc.)

Delivery Point and Conveyance: _____ (Delivered, Shipped, Free In Store, Free On Board, Ex-Farm, etc.)

Payment Terms: The buyer agrees to pay the seller within _____. In the absence of a declaration, payment will be 30 days end of week of delivery.

Levies and Statutory Charges: Any industry, statutory or government levies which are not included in the price shall be deducted as required by law.

Disclosures: Is any of the crop referred to in this contract subject to a mortgage, Encumbrance or lien and/or Plant Breeders' Rights and/or EPR liabilities and/or registered or unregistered Security Interest? NO YES (Please appropriate box) If "yes" please provide details: _____

Other Special Terms and Conditions: _____

All Contract Terms and Conditions as set out above and on the reverse of this page form part of this Contract. Terms and Conditions written on the face of this Contract Confirmation shall overrule all printed Terms and Conditions on the reverse with which they conflict to the extent of the inconsistency. This Contract comprises the entire agreement between Buyer and Seller with respect to the subject matter of this Contract.

Recipient Created Tax Invoice (RCTI).
To assist with the processing of the Goods and Services Tax compliance, the buyer may prepare, for the seller, a Recipient Created Tax Invoice (RCTI). If the seller requires this service they are required to sign this authorisation.

Please issue a RCTI (Please _____)

Incorporation of GTA Trade & Dispute Resolution Rules:
This contract expressly incorporates the GTA Trade Rules in force at the time of this contract and Dispute Resolution Rules in force at the commencement of the arbitration, under which any dispute, controversy or claim arising out of, relating to or in connection with this contract, including any question regarding its existence, validity or termination, shall be resolved by arbitration.

Buyer's Name: _____ PRINT NAME

Buyer's Signature: _____

Date: _____

Seller's Name: _____ PRINT NAME

Seller's Signature: _____

Date: _____

This Contract has been executed and this form serves as confirmation and should be signed and a copy returned to the buyer/seller immediately. 2014 Edition
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Grain Trade Australia is the industry body ensuring the efficient facilitation of commercial activities across the grain supply chain. This includes contract trade and dispute resolution rules. All wheat contracts in Australia should refer to GTA trade and dispute resolution rules.

Figure 13: Typical cash contracting as per Grain Trade Australia standards.

The price point within a cash contract will depend on where the transfer of grain title will occur along the supply chain. Figure 14 shows the terminology used to describe

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pricing points along the grain supply chain and the associated costs to come out of each price before growers receive their net farm-gate return.

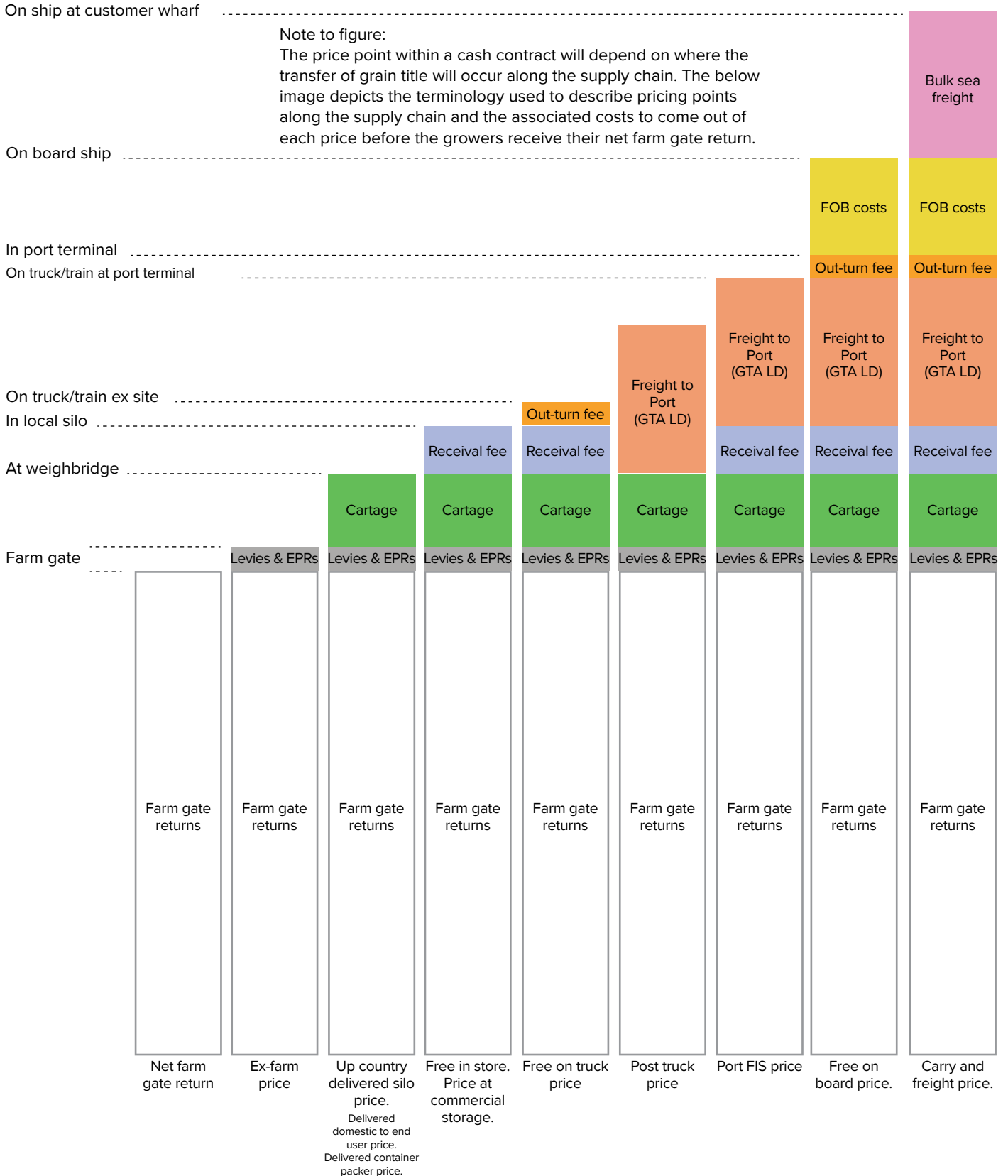


Figure 14: Costs and pricing points throughout the supply chain.

Cash sales generally occur through three methods:

1. Negotiation via personal contact. Traditionally, prices are posted as a “public indicative bid”. The bid is then accepted or negotiated by a grower with the merchant or via an intermediary. This method is the most common and is available for all commodities.
2. Accepting a “public firm bid”. Cash prices in the form of public firm bids are posted during harvest and for warehoused grain by merchants on a site basis. Growers can sell their parcel of grain immediately, by accepting the price on offer via an online facility and then transferring the grain online to the buyer. The availability of this depends on location and commodity.
3. Placing an “anonymous firm offer”. Growers can place a firm offer price on a parcel of grain anonymously and expose it to the entire market of buyers, who then bid on it anonymously using the Clear Grain Exchange, which is an independent online exchange. If the firm offer and firm bid match, the parcel transacts via a secure settlement facility where title of grain does not transfer from the grower until funds are received from the buyer. The availability of this depends on location and commodity. Anonymous firm offers can also be placed to buyers by an intermediary acting on behalf of the grower. If the grain sells, the buyer and seller are disclosed to each counterparty.

Counterparty risk

Most sales involve transferring title of grain prior to being paid. The risk of a counterparty defaulting when selling grain is very real and must be managed.

Conducting business in a commercial and professional manner minimises this risk.

Seller beware

Selling for an extra \$5/t is not a good deal if you do not get payment. Counterparty risk management includes the following principles:

- Deal only with known and trusted counterparties.
- Conduct a credit check (banks will do this) before dealing with a buyer you are unsure of.
- Sell only a small amount of grain to unknown counterparties.
- Consider credit insurance or letter of credit from the buyer.
- Never deliver a second load of grain if payment has not been received for the first.
- Do not part with title of grain before payment, or request a cash deposit of part of the value ahead of delivery. Payment terms are negotiable at time of contracting. Alternatively, the Clear Grain Exchange provides secure settlement whereby the grower maintains title of grain until payment is received from the buyer, and then title and payment are settled simultaneously.

Above all, act commercially to ensure that the time invested in a selling strategy is not wasted by poor counterparty risk management. Achieving \$5/t more and not receiving payment is a disastrous outcome.

Relative values

Grain sales revenue is optimised when selling decisions are made in the context of the whole farming business. The aim is to sell each commodity when it is priced well and hold commodities that are not well priced at any given time; that is, give preference to the commodities of the highest relative value. This achieves price protection for the overall farm business revenue and enables more flexibility to a grower’s selling program while achieving the business goals of reducing overall risk.

Sell valued commodities, not undervalued commodities

If one commodity is priced strongly relative to another, focus sales there. Do not sell the cheaper commodity for a discount.

Contract allocation

Contract allocation means choosing which contracts to allocate your grain against at delivery time. Different contracts will have different characteristics (price, premiums, discounts, oil bonuses, etc.), and optimising your allocation reflects immediately on your bottom line.

Don't leave money on the table.

Contract allocation decisions do not take long, and can be worth thousands of dollars to your bottom line.

To achieve the best average wheat price, growers should allocate:

- lower grades of wheat to contracts with the lowest discounts; and
- higher grades of wheat to contracts with the highest premiums.

Read market signals

The appetite of buyers to purchase a particular commodity will differ over time depending on market circumstances. Ideally, growers should aim to sell their commodity when buyer appetite is strong and should stand aside from the market when buyers are not as interested in buying the commodity.

Sell when there is buyer appetite

When buyers are chasing grain, growers have more market power to demand a price when selling. When buyer appetite is strong the seller has more ability to negotiate a better price.

Buyer appetite can be monitored by:

1. The number of buyers at or near the best bid in a public bid line-up. If there are many buyers, it could indicate buyer appetite is strong. However, if there is one buyer at \$5/t above the next best bid, it may mean cash prices are susceptible to falling \$5/t if that buyer satisfies their buying appetite.
2. Monitoring actual trades against public indicative bids. When trades are occurring above indicative public bids, it may indicate strong appetite from merchants and the ability for growers to offer their grain at price premiums to public bids.

Summary

The selling strategy is converted to maximum business revenue by:

- Ensuring timely access to information, advice and trading facilities.
- Using different cash market mechanisms when appropriate.
- Minimising counterparty risk by effective due diligence.
- Understanding relative value and selling commodities when they are priced well.
- Thoughtful contract allocation.
- Reading market signals to extract value from the market or to prevent selling at a discount.

Separate the delivery decision from the pricing decision

Storage is all about market access—storage decisions depend on quality management and expected markets. Storage decisions are dependent on quality management and least cost pathways to expected markets. Alternatives include variations around the bulk handling system, private off farm storage, and on-farm storage.⁹

9 N Cattle, H Janson. Profarm, [Putting a dollar value on best practice grain selling](#)

15.3 Other relevant marketing issues

15.3.1 Improving structures around grain marketing decision making

Take home messages

- Good grain marketing can only occur if other aspects of the business are being managed appropriately to ensure there is choice in products and timing of sales.
- Understanding the different stages of the grain marketing process and optimising the length of the sales window are two key underlying frameworks for improving decision making.
- An overall decision making framework outlines the need for a foundation of good internal structure and an understanding of those factors that can be controlled within a business, and then overlaying good plans and strategies to deal with external factors that are outside your control.

Grain marketing can be viewed as a series of decisions that start with thinking about the market and carry through to ensuring sales are finalised, delivered on, and paid for. The result is cashflow; grain has been turned into cash, which can then be used for a number of things. Hence, a simplified definition of grain marketing is:

“A series of decisions and subsequent actions that turn grain into cashflow.”

The ultimate aim is to maximise this cashflow by optimising yield and price given the constraints of any one season (both production and market constraints at the time). In terms of price, the single most important requirement is to have choice on when grain is sold. The idea behind price risk management is to create more pricing opportunities and manage them in a way that reduces overall risk, and doesn't just transfer one risk to another that can still impact the business. For example, reducing price risk if not done correctly can impact production risk.

There are three key concepts concerning grain marketing decision making:

1. the grain marketing process,
2. the grain marketing window, and;
3. the grain marketing pyramid.

These three concepts give a theoretical context to some of the more specific actions that can be undertaken to improve grain marketing outcomes.

Several grain marketing concepts have been introduced as ways to help build structure around the grain marketing decision making process. The theory behind the pyramid is that by building the foundation of a good internal structure then overlaying this with a strategy and a plan, and capping this off by good execution, an overall strong grain marketing process will result.

Rather than outlining specific actions, tools and resources, a general theory is outlined to help growers design their own pyramid in the way that suits their business.¹⁰

15.3.2 Making effective grain marketing decisions—Eyre Peninsula

Take home messages

- Eyre Peninsula (EP) farmers in particular need to understand the impact of shipping on marketing.
- There is more to grain marketing than simply selling or brokering grain.
- There appears to be limited truth or accountability in advertising. The basic principle of “Buyer Beware” applies.

MORE INFORMATION

[Improving structures around grain marketing decision making](#)

¹⁰ B Knight (2014) GRDC Update Papers: Improving structures around grain marketing decision making, <https://grdc.com.au/Research-and-Development/GRDC-Update-Papers/2014/09/Improving-structures-around-grain-marketing-decision-making>

- In order to ensure the farming business' long term financial sustainability you need to make every effort to engage the market.
- There is a real cost for grain marketing to every business. This does not include the cost of getting it wrong.

The Eyre Peninsula market is unique:

- Limited domestic opportunities resulting in 100% export focus.
- Logistic closed loop with depreciated mobile and fixed infrastructure.
- Reliance on road, as many sites have no rail infrastructure. This results in additional political pressure from local councils.
- Geographic funnel with one of the best ports in Australia at the spout.
- Geographically isolated.
- Visionary medium term goals of linking a large capacity second port with potential mining industry infrastructure.
- Exporters want to and need to be active in this region.
- Access to shipping stems is providing a barrier to entry that is resulting in lower returns for producers.
- There is a culture within the EP farming community that is unique.

Whilst the EP is unique, in the context of global markets it is not special. If you export a commodity you need to think globally, and the world is rapidly shrinking. Just because you are geographically isolated you do not have to be isolated. Adoption of technology is the key. There is a significant cost for an exporter to have people on the ground. In order to compete in global markets, exporters naturally become focused on supply chain cost.¹¹

i MORE INFORMATION

[Making effective marketing decisions](#)

15.3.3 The grain industry in Tasmania—new and emerging markets

Take home messages

- Grain prices are likely to remain volatile.
- Set objective and realistic grain price targets for sales that fit business objectives.
- Increase economies of scale to spread fixed costs (storage and machinery costs).
- Consider new capital.

In 1842 Tasmania grew 48,000 ha of wheat, 52% of Australia's production.

In 1898 Tasmania produced around 100,000 mt of grain, 5% of Australia's production.

Today Tasmania produces around 60,000 mt of grain, 0.2% of Australia's production.

How to play in the modern markets

- Twelve months is a long time in grain markets: time, volatility and price.
- Set objective budgets and stick to them. Sell when it is good for your business, not when fear or greed tells you to.
- Manage how you sell your products: counterparty risk, quality risk and production risk.

Developing scale

- Tasmanian machinery costs are higher than similar rainfall and yield regions of Victoria: e.g. spray costs are \$8–10/ha in Victoria versus almost \$30/ha in Tasmania.
- Rationalising the number of gross margins: Victorian businesses may have 4–5 enterprises, Tasmanian businesses often have 10–15 enterprises. The question is, can you increase economies of scale and focus management resources?

¹¹ C Heinjus (2013) GRDC Update Papers. Making effective grain marketing decisions, <https://grdc.com.au/Research-and-Development/GRDC-Update-Papers/2013/03/Making-effective-grain-marketing-decisions>

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Grain marketing—The process, decisions and how to build a successful structure

Grain market update and underlying fundamentals—Does grain marketing really matter?

Be open to capital

- Capital expense on water (around \$4,000/ha).
- Capital expense on water infrastructure (between 2–3,000/ha).
- Machinery and storage (around \$1,000/ha).
- To convert water to product needs around \$8,000/ha or \$2 million to start to get scale.
- Take a lead from the dairy industry (especially in New Zealand) and look at equity partnership-type structures, which are now becoming more common in Australia and broadacre farming.

Summary

- Grain is not a new and emerging market; it is a resurrected market.
- There are huge opportunities in combining existing demand and water availability.
- Markets have changed; set a plan in place that lets you get on with producing.
- Don't over complicate the marketing and logistics component of the business at the end of the year.
- Increase economies of scale.
- Consider new capital.¹²

¹² L Stevens (2015) The grain industry in Tasmania—new and emerging markets, <https://grdc.com.au/Research-and-Development/GRDC-Update-Papers/2015/08/The-grain-industry-in-Tasmania-new-and-emerging-markets>