



NORTHERN

SEPTEMBER 2018

GRDC™ **GROWNOTES™**



GRDC™

GRAINS RESEARCH
& DEVELOPMENT
CORPORATION

CEREAL RYE

SECTION 15

MARKETING

[LINKS TO INDUSTRY BOARDS](#) | [SELLING PRINCIPLES](#) | [OTHER RELEVANT MARKETING ISSUES](#)

MORE INFORMATION

[Grain Marketing - 2016](#)

[Grain marketing lingo – what does it all mean?](#)

[The psychology of grain marketing](#)

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 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 Northern grower alliance

[Northern Grower Alliance \(NGA\)](#) is an Incorporated Association that was established in 2005 to provide a regional capacity for industry-driven, applied agronomic research into the challenges of grain production. NGA is currently working on a five year project, fully funded by GRDC, focusing on the validation and adoption of new agronomic practices in northern NSW and southern QLD.

15.1.2 Central west farming systems

[Central West Farming Systems \(CWFS\)](#) is an independent, not-for-profit, farmer driven organisation. We operate in an area covering 14 million hectares in the lower rainfall, mixed farming region of Central West NSW (350–500 mm rainfall). Formed in 1998, the group now boasts over 300 members made up primarily of farmers but also private and public sector advisers, researchers and stakeholders.

15.1.3 Conservation Farmers Inc.

[Conservation Farmers Inc.](#) is a not-for-profit grower member Association established almost 40 years ago. It has approximately 250 active members, 85% of whom are farmers, based in northern NSW and southern Qld. Conservation Farmers supports our member base by facilitating the extension of research through network groups and field days and the distribution of information in the quarterly newsletter.

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

Conservation Farmers Inc. is a farmer's network and our focus is on telling the farmers stories and getting producers together to learn from each other.

15.1.4 FarmLink

FarmLink is made up of growers, advisers and researchers in southern NSW. FarmLink gives growers the power to influence research priorities and be actively involved in the research process.

15.1.5 Grain Orana Alliance

Grain Orana Alliance. Improving the profitability and sustainability of grain growers through remedying key production constraints highlighted by the industry. GOA strives to improve the profitability and sustainability of grain growers through effective research and extension activities on the most important production constraints as identified by the local industry. Responsive and localised efforts ensure adaptability of results but coupled with input from industry leading experts ensures effective solutions.

15.1.6 Conservation Agriculture Australia

Conservation Agriculture Australia is an incorporated not-for-profit association dedicated to the advancement and dissemination of information, products and services relating to all aspects of conservation agriculture, regional sustainability and carbon farming. CANFA is a member of CAA. CANFA is now run by a volunteer committee of farmers and conservation agriculture advocates keen to learn from each other through farm visits and organised trips to conservation farming events.

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.

Expand the sales window

Expand the selling window by expanding the period in which growers can make grain sales, growers 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.

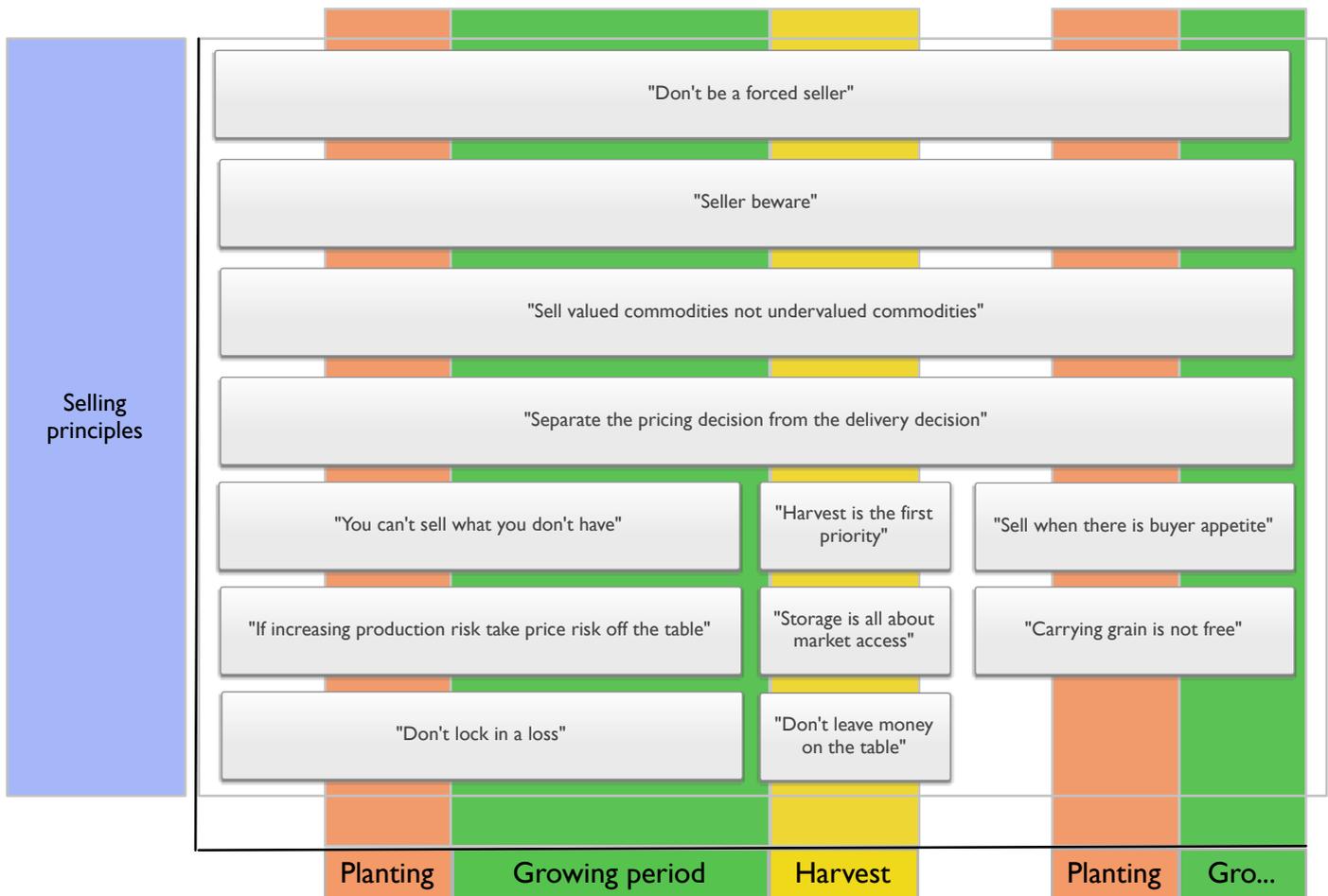


Figure 1: Grower commodity selling-principles timeline. The illustration demonstrates the key selling principles throughout the production cycle of the crop.

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?

SECTION 15 CEREAL RYE

TABLE OF CONTENTS

FEEDBACK

- Are business cash requirements being met?

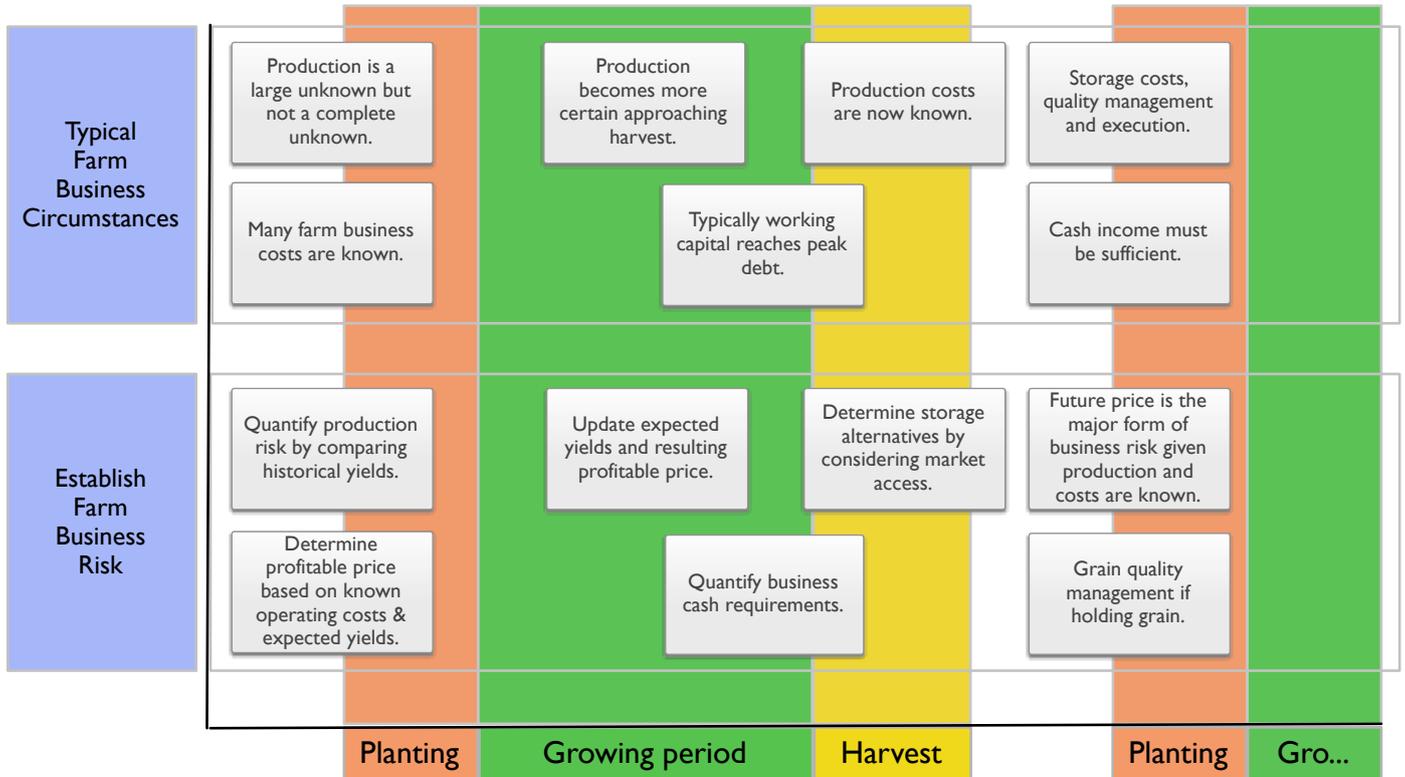


Figure 2: Typical farm business circumstances and risk.

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

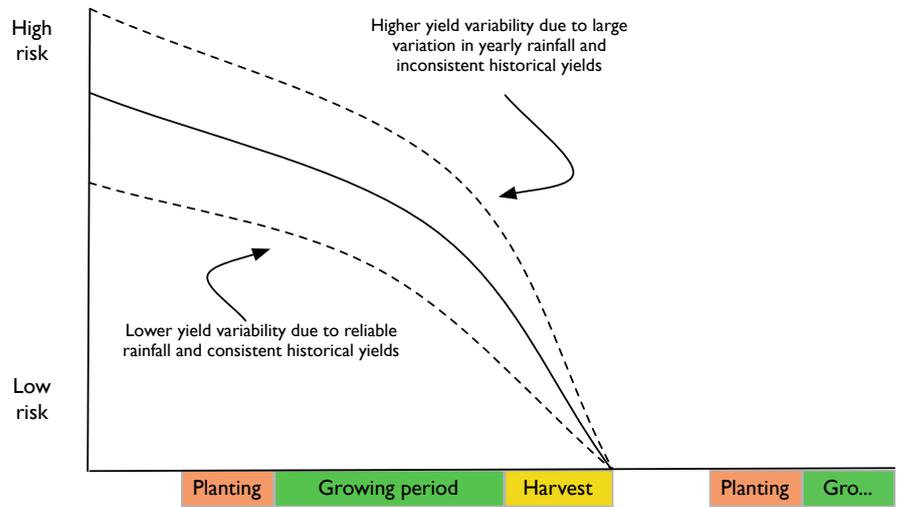


Figure 3: Typical production risk profile of a farm operation.

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

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. ²

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.



GRDC Grains Research & Development Corporation

² M Krause (2014) Farming the business. Sowing for your future. GRDC, <http://www.grdc.com.au/FarmingTheBusiness>

SECTION 15 CEREAL RYE

TABLE OF CONTENTS

FEEDBACK

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.

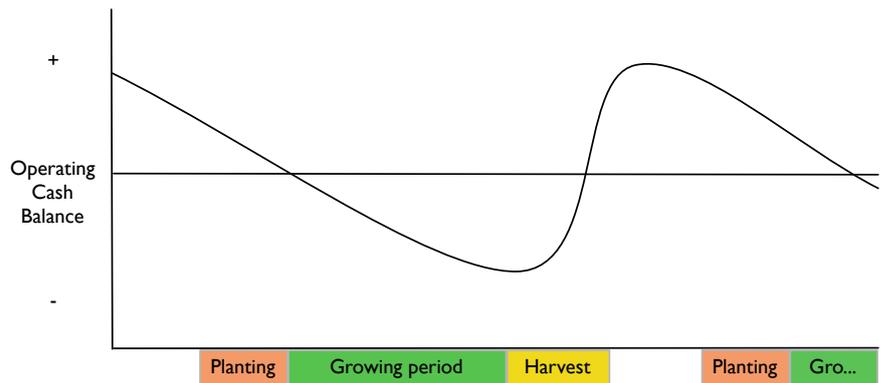


Figure 5: Typical farm operating cash balance, assuming harvest cash sales. In this scenario, peak cash surplus starts higher and peak cash debt is lower.

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.

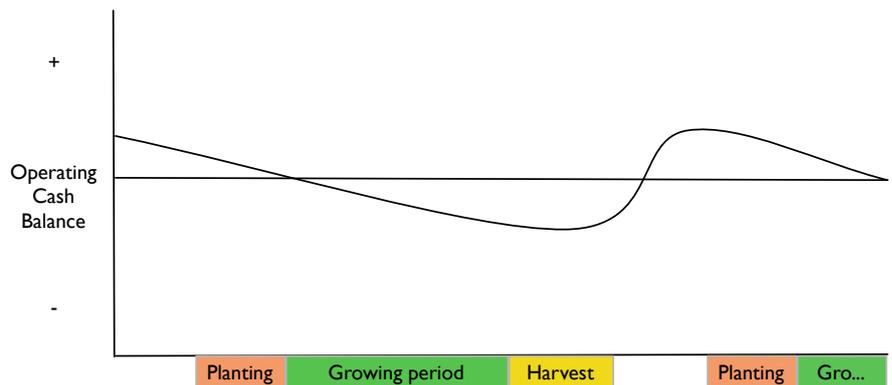


Figure 6: Typical farm operating cash balance, with cash sales spread throughout the year. In this scenario, peak cash surplus starts lower and peak cash debt is higher.

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 in contrast to executing sales in order to fulfil cash requirements.

Summary

The when-to-sell steps above 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.

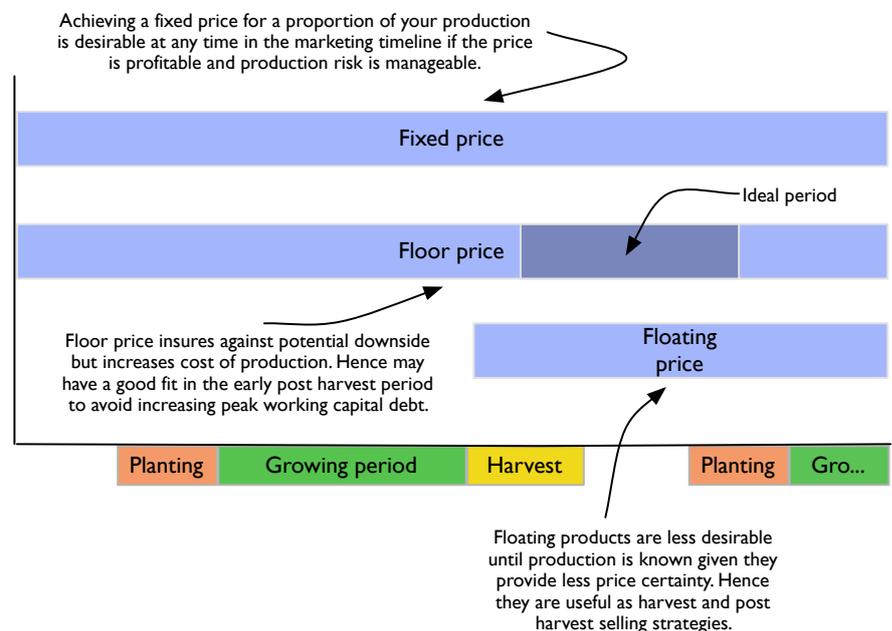


Figure 7: Price strategy timeline through the growing season.

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. Hence 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 delivery timeframes negotiable; hence, 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). It 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,

for example, a multi-grade cash contract with floating spreads or a floating basis component on futures positions.

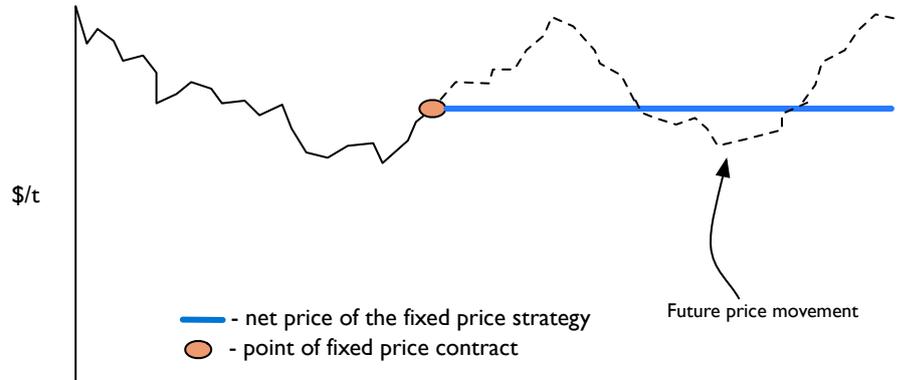


Figure 8: Fixed price strategy.

Source: Profarmer Australia.

Fixed price product locks in price and 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.

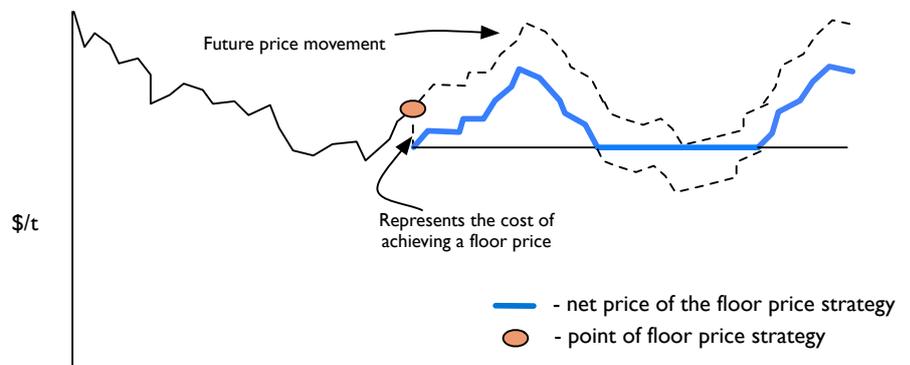


Figure 9: Floor price strategy.

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.

SECTION 15 CEREAL RYE

TABLE OF CONTENTS

FEEDBACK

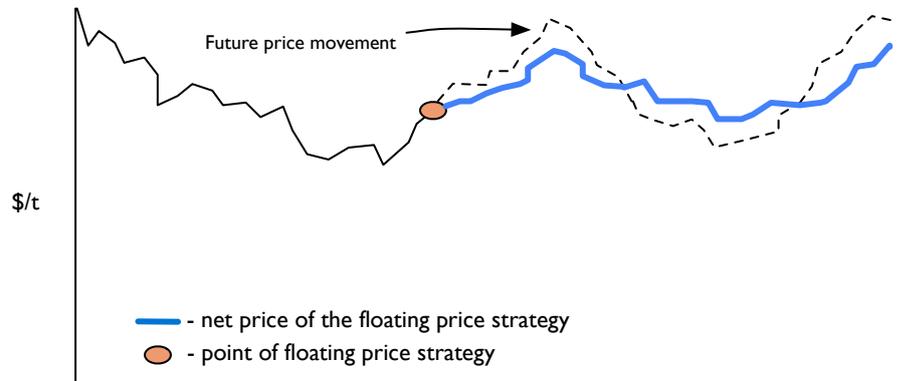


Figure 10: Floating price strategy.

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; hence, 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).

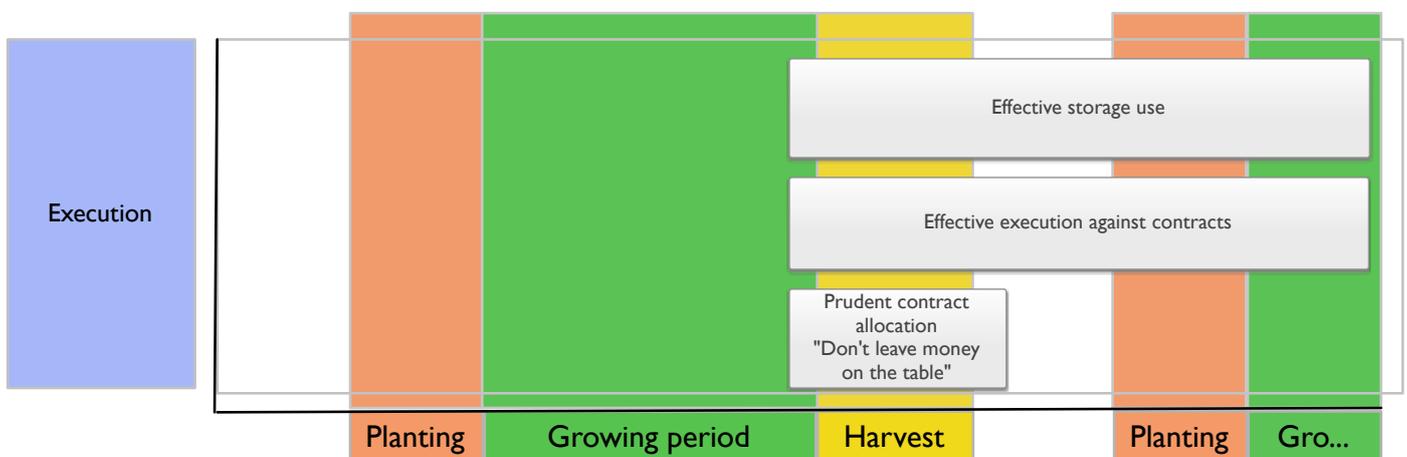


Figure 11: Effective storage decisions.

Source: Profarmer Australia.

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:

- 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; hence, 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 and 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. Hence, there is potential for a distressed sale, which can be costly.

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

Storage is all about market access

Storage decisions depend on quality management and expected markets.

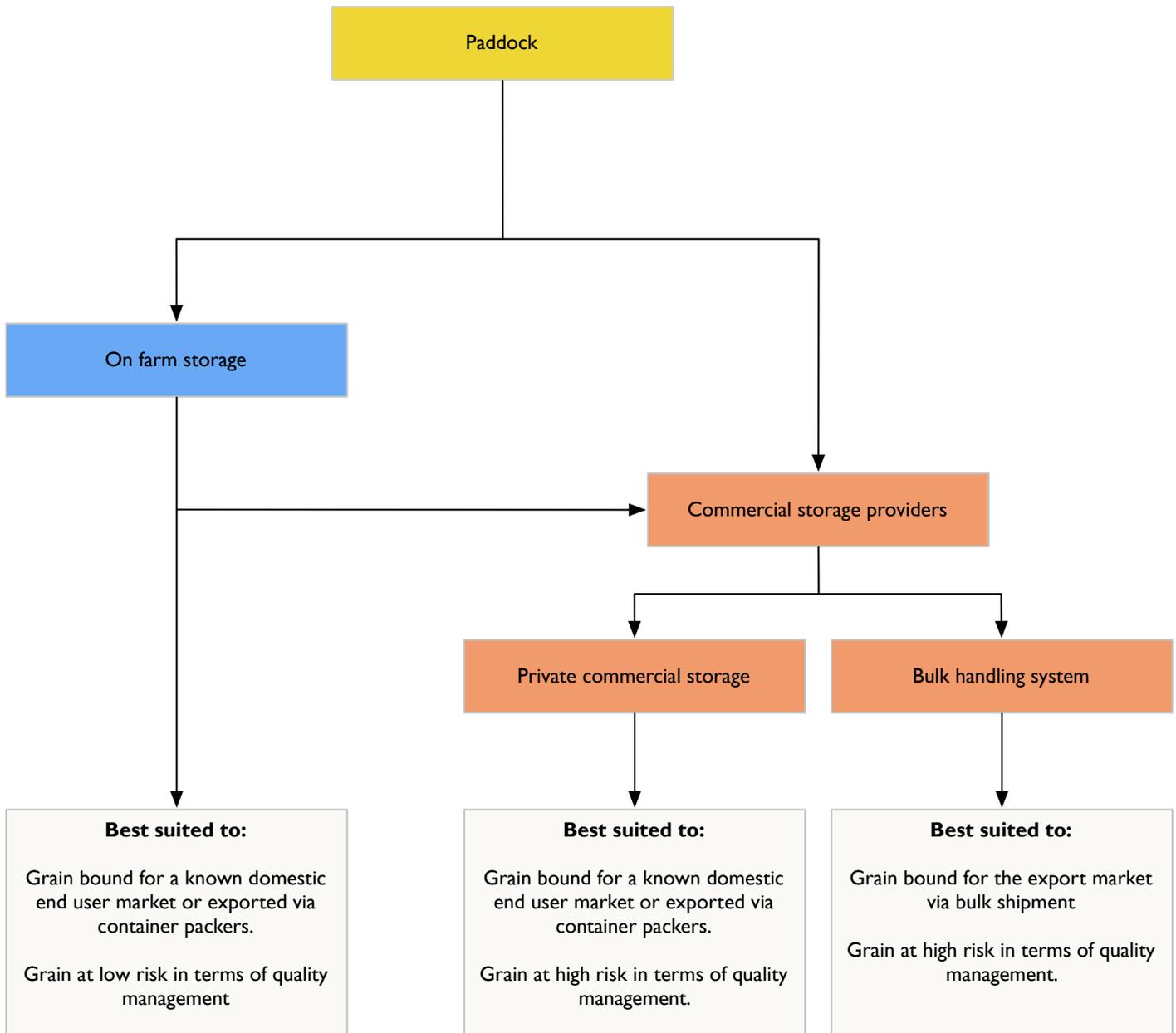


Figure 12: Grain storage decision making.

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](#)

SECTION 15 CEREAL RYE

TABLE OF CONTENTS

FEEDBACK

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: _____
Delivery Point and Conveyance: _____
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: _____
Buyer's Signature: _____
Date: _____

Seller's 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
©GTA. For GTA member use only.

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

SECTION 15 CEREAL RYE

TABLE OF CONTENTS

FEEDBACK

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.

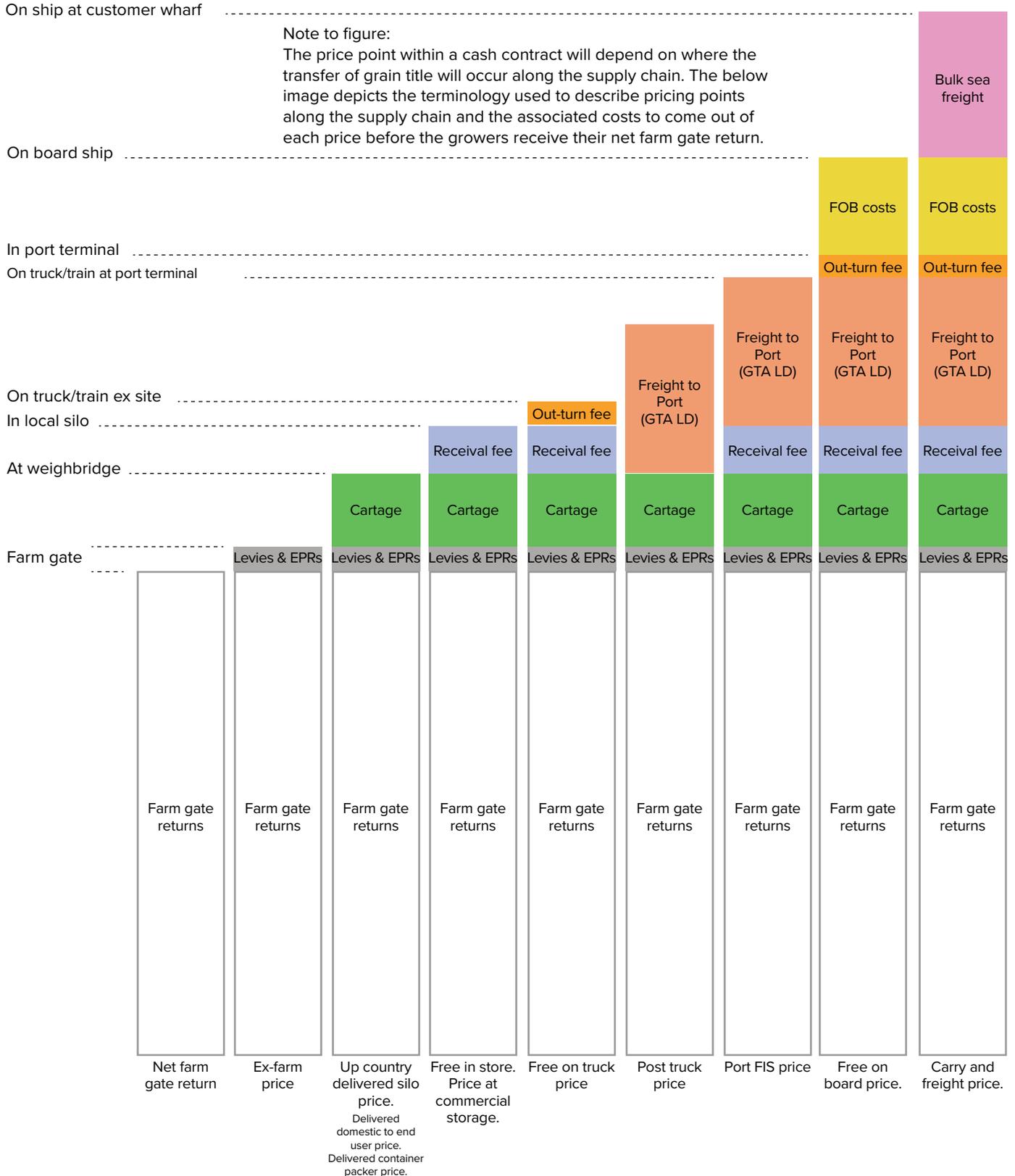


Figure 14: Costs and pricing points throughout the supply chain.

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.³

³ Cattle N, Janson H. [Putting a dollar value on best practice grain selling](#). Profarm.

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 is introduced that outlines the need for the foundation of a 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 of your control.

Grain marketing can be viewed in a simplified way as a series of decisions that start with thinking about the market right through to ensuring sales are finalised, delivered on and paid. 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 as follows:

'a series of decisions and subsequent actions that turn grain into cashflow'

The ultimate aim is to maximise this cashflow by maximising 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 about grain marketing decision making focussing on ways of building more structure around these decisions.

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 specifics actions, tools and resources, a general theory is outlined to help growers design their own 'pyramid' that suits their business.⁴

MORE INFORMATION

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

[Grain marketing - The process, decisions and how to build a successful structure](#)

[Grain market update and underlying fundamentals - Does grain marketing really matter?](#)

⁴ Knight B. (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>