

# modern grain marketing: 13 principles to follow

The purpose of this fact sheet is to show how taking the emotion out of grain marketing decisions contributes to sound farm business management.

The agribusiness consultants within Pinion Advisory work with your business to help you understand supply chain complexity, reduce stress and emotion in decision making and give you confidence in your grain business.

## 1. GRAIN MARKETING GUIDELINES LINKED TO YOUR BUSINESS

Having grain marketing guidelines included in your business plan will assist with managing the emotion of grain marketing decisions. It is a simple way of documenting your thoughts and business rules for selling grain.

These guidelines also allow communication within your team, so that everyone involved in the business knows the rules underpinning grain marketing decisions.

## 2. KNOW YOUR COST OF PRODUCTION

Knowing the cost of production for your farm will reduce the emotional stress associated with selling grain. It changes your focus from attempting to pick the peak market, to managing business and price risk.

Working to lower your cost of production and increase profit margins, through optimising gross margins and developing a low-cost business model, can increase the amount of profit generated, through selling grain and enable you to be profitable in a wider range of price deciles.

## 3. UNDERSTANDING YOUR INDIVIDUAL AND BUSINESS RISK PROFILE

Knowing your risk profile will help you to understand your decision-making process.

There is no right or wrong risk profile and different experiences, ages, geographies, business structure, scale, debt and education all impact how much risk you feel comfortable taking on.

Your risk profile is in a constant state of change.

Remember, individual risk profiles will also vary between business partners, and will often be different to the business risk profile.

## 4. UNDERSTANDING THE PEOPLE WITHIN YOUR BUSINESS

The best strategy can be in place, but without the underlying culture to support it, nothing will come of it.

At times, the market requires decisive and timely decisions. Whilst this is the case, it is still important to communicate all selling decisions with business partners. This keeps everyone informed about what has been happening on the grain marketing front.

Other family members need to support the decision maker once any decision has been made.

## 5. UNDERSTANDING GRAIN MARKETING PRODUCTS

Understanding grain marketing products is extremely important when you are using them. For you to effectively manage risk within your business, you need to have a full understanding of the risks associated with each of the grain marketing products.

Having a good understanding of the grain marketing products available, and their associated risks, will promote better business decision making.

## 6. PORTFOLIO APPROACH

Having a portfolio approach to selling achieves two outcomes:

- Credit risk is spread across buyers.
- Market risk is spread over a period of time.

This is a great fit for the Pinion Advisory philosophy of 'sell less more often'. Having rigorous marketing guidelines, which underpin this portfolio approach, allows growers to average out their net price, as well as spreading the risk among buyers in a volatile market.

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## 7. MARKET ANALYSIS – WHEN IS A GOOD PRICE A GOOD PRICE?

Being able to assess when it is the right time to sell grain can be made easier when you have access to current information sources. Information helps shape our decision making.

Pinion Advisory can provide clients with up to date information about current global and domestic markets, as well as using historical information to measure price deciles over multiple years. The consultancy team's extensive knowledge of the grains industry and ability to give accurate and knowledgeable advice drives best case outcomes for clients.

## 8. IDENTIFY YOUR CUSTOMER

Beginning with the end user in mind is useful when considering the timing and location of grain deliveries.

If your customer is a bulk exporter, then grain should be in the export pathway.

Grain logistics are another key factor in identifying the customer. Identifying which market and port zone you are going to target, before harvesting, enables you to follow appropriate logistic routes to gain the best access to the market.

## 9. DUE DILIGENCE

Due diligence is everyone's responsibility. There are no guarantees and the principle of 'buyer beware' applies. Due diligence is an important precautionary measure and is a way of managing credit risk.

When you sell grain, the industry norm is for the buyer to then pay you on deferred payment terms, generally 9 to 30 days. As soon as you contract and transfer grain, you have credit risk to the buyer.

It is therefore highly desirable that you know who you are dealing with.

## 10. ACCURATE POSITION REPORTING

A position in grain marketing is knowing how far forward sold you are by looking at total expected yields on a commodity by commodity basis.

Having an accurate position report, that reflects the current crop conditions, is important for outlining production risk exposure, as well as highlighting credit risk exposure with grain traders.

The key to successful position reporting is to have the information as accurate as possible, so getting your predicted yield close to the mark is vital.

## 11. PROACTIVE CONTRACT MANAGEMENT

Failure to meet obligations outlined in a grain contract can be costly to a business, so it is important to have systems in place and to manage contracts accordingly.

A contract is not completed until it is successfully transacted, and the seller has received payment. At Pinion Advisory we proactively manage contracts to ensure that they are transacted within the contracted terms and time frames.

Risks associated with contracts are also dealt with as they arise, ensuring that all obligations of the contract are met.

## 12. MARKETS AND PRODUCTS CHANGE

Marketing products have changed considerably since the grain markets became deregulated and, as such, today's marketing options are significantly different to those offered in a regulated market.

Like any market, the grain market will not wait for people to understand what is happening. Essentially, this means that growers are going to have to be proactive in making vital grain marketing decisions moving forward.

## 13. BEWARE OF THE 'GURU' WHO CLAIMS TO BE ABLE TO PICK A MARKET

The world financial and, therefore, grain markets are extremely volatile. While we can have a view of a market, nobody can consistently beat the market. To try and pick the market, or base selling tactics on what people say they can achieve, is risky.

Adopting an approach that is based on well considered thinking and grain marketing principles will ensure decisions are profitable and rational.

Pinion Advisory helps farmers to look commercially at their business and develop an approach that assists with removing stress and increasing confident decision making.

