**Do post-harvest contracts improve a farm’s overall profitability?**

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In 2017, collaboration between Minnesota State Colleges and Universities Farm Business Management Association, SWFBMA, and UMN Extension distributed a “Top Farmer” survey to FBM participants to identify the management skills that resulted in higher profit levels. Over the next 12 months we will discuss how management skills affect farm financial performance, with a different management topic each month.

This month’s topic focuses on crop farmer’s use of marketing strategies. Farm managers recognize the importance of having a marketing plan to improve their profitability. And, the title of Ed Usset’s grain marketing book conveys an important truth- “Grain Marketing is Simple-it’s just not easy!” In the “Top Farmer” survey, crop producers were asked to categorize the percent of their crop marketed across 3 general categories: pre-harvest contracts (cash contracts, futures, and options), post-harvest contracts (cash contracts, futures, and options) and cash sales (harvest and post-harvest).

In order to compare the highest and lowest performing farms, farm profit performance was measured using an adjusted net farm income ratio[[1]](#footnote-1). Comparison across performance levels were completed for the “Top Farmers” who were in the highest 20% of financial performance, measured by the adjusted NFI ratio, compared to the lowest 20% of farmers. In 2016, regardless of whether you were in the highest or the lowest 20% of producers, approximately 34-35% of the overall crop was sold using pre-harvest contracts, futures, or options while another 36-37% was sold through harvest or post-harvest cash sales. The main difference in marketing between these two groups occurred with post-harvest contracts. The highest performing farms contract approximately 29% of their crop using some combination of post-harvest cash contracts, futures, and options. The lowest performing farms only contracted 22-23% of their crop with post-harvest contracts, futures, and/or options.

In general, a 33-34-33 marketing strategy for pre-harvest, cash sales, and post-harvest strategies is recommended. Our data shows a variety of marketing strategies used, therefore the averages are calculated based on reported values greater than 1%. Of the 184 crop farms that shared their marketing strategies, 50% (92 farms) reported marketing a portion of their crop using post-harvest cash contracts while 53 farms (28%) reported using post-harvest futures and only 15 farms (8%) incorporated post-harvest options into their marketing strategy. During the recent commodity boom, many crop farms benefited more from making cash “spot” grain sales versus forward marketing activities. However, this strategy has not been as successful in recent years, as the grain markets have returned to long term average price performance.

With depressed commodity prices in 2018, many crop producers are trying to develop a marketing plan that will result in positive profits. To add to this, many farmers are still holding 2017 crops in storage. Moving forward, crop producers should not underestimate the premium that may be associated with carrying their crop for spring delivery through post-harvest contracting strategies. The results of this survey specifically found this to be one of the contributing factors to having higher profit compared to their peers.

Many readers are now asking the question, “What can I do today to improve my marketing skills and increase my bottom line?” First, know your cost of production. This is the first step in developing a strong marketing plan. Second, find a marketing resource that works for you. For some, this may mean attending Extension or FBM programming that focuses on marketing while others may seek out online marketing plan resources or join a local marketing club or marketing advisory service. Regardless of the strategy used, figuring out how to market your crop post-harvest should be a top priority over the coming months.

1. Adjusted NFI ratio = Net farm income / Value of farm production [↑](#footnote-ref-1)