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Planning Your Business in the Volatile Economy of 2009

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Market Report	Yr Ago	4 Wks Ago	12/12/08
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	$91.64	$91.76	$82.51
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.. . . .	117.28	107.72	99.96
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	100.00	102.85	96.25
Choice Boxed Beef, 600-750 lb. Carcass.	147.70	155.68	143.13
Western Corn Belt Base Hog Price Carcass, Negotiated.	54.58	51.73	53.47
Feeder Pigs, National Direct 50 lbs, FOB..	45.33	54.45	59.48
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean..	58.93	57.28	60.45
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct..	89.50	97.62	91.00
National Carcass Lamb Cutout, FOB.	261.87	265.39	265.66
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu..	9.29	5.16	4.58
Corn, No. 2, Yellow Omaha, bu.	4.19	3.75	3.64
Soybeans, No. 1, Yellow Omaha, bu.	10.97	8.83	8.42
Grain Sorghum, No. 2, Yellow Dorchester, cwt..	7.38	4.91	4.73
Oats, No. 2, Heavy Minneapolis, MN , bu.	2.96	2.10	2.13
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton..	135.00	202.50	202.50
Alfalfa, Large Rounds, Good Platte Valley, ton..	87.50	77.50	77.50
Grass Hay, Large Rounds, Premium Nebraska, ton..	*	75.00	75.00
Dried Distillers Grains, 10% Moisture, Nebraska Average.	147.50	138.50	125.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	48.12	48.00	42.00
*No Market			

Planning what to grow in 2009 has many complications this year. Among the possible unknowns at the farm level are market prices for commodities, the cost and availability of inputs and the cost and availability of operating credit. I say "possible" because through contractual arrangements and forward pricing decisions you may already have locked in many of these prices for the next production cycle. Then there are a number of general economic situations which will impact agriculture. The financial recovery both here and worldwide is critical. Agriculture needs improvement in our general economy and improved consumer confidence in order to prosper. Yes, people will buy food, but they will spend more on food through buying more expensive items, more protein and more prepared meals, if they have more money in their pockets.

Here are some guidelines in planning the farm business for next year.

1. Establish Your Business Model. Granted, there are many unknowns and conditions that can change, but start with describing the operating environment you think is going to exist for the next year. This gives you a base to respond to if the situation does change – as opposed to reacting on a daily basis without any structure in your decision making process. The model of the operating environment will include what you plan to produce (more about that later), the inputs you will need, the forces that will impact the production process and major risks to your business.

2. Define Your Marketing Plan. Price patterns and relationships have changed, but it is still important to establish a marketing plan. The volatility of prices has changed, but seasonal price patterns are still relevant. Typically this is not a good time to sell corn, but as I write this there has been about a 75 cent retracement in the March corn futures. Even so, keep in mind the principles taught in our **Winning the Game** programs, and look to make sales in the March to May period when prices trend to their seasonal highs. This would apply to both old crop that is not already priced, and to forward pricing of the 2009 crop. Using the futures and options provide good risk management alternatives, but make sure you understand the strategy being applied.

3. Make Farm Program Decisions. It is anticipated the details of the new farm program, and specifically the Average Crop Revenue Election program (ACRE), will be announced soon after the New Year.

4. Coordinate Decisions. Once you decide what you plan to grow, the next set of decisions will be the inputs you need – seed, fertilizer, fuel, chemicals. But this should be coordinated with two other sets of decisions, namely the crop insurance decision and a marketing plan. All three groups of decisions should be tied together. The marketing plan provides a road map for how the money tied up in production costs will be recovered and turned into a profit. The crop insurance plan provides backup for the marketing plan, with the Nebraska deadline for crop insurance decisions for spring planted crops being March 15.

5. Evaluate the Cost/Benefit of Seed Alternatives. There are an increasing number of alternatives available in terms of the traits incorporated into seeds. These traits have contributed to the upward trend in yields and reduced chemical use. There may be an opportunity to reduce seed costs if particular hazards addressed in the seed trait are not a problem on your farm.

6. Assess Contractual Arrangements. Contractual arrangements range from land leasing arrangements, to prepayment for inputs, to forward pricing of output. I stand by my comments above regarding forward pricing grain; just be cautious about the financial status of the purchaser. Non-fulfillment of marketing contracts has not happened very often, but it did happen this year. The same applies to prepaying for inputs. Producers become unsecured creditors with prepayment arrangements. There were incidents this year of firms becoming insolvent and not supplying the inputs. Deal with suppliers who have been a part of your local economy and have a history of providing dependable service to their customers.

7. Calculate Your Working Capital Position. Working capital is the difference between current assets, cash or things that can be turned into cash within the year, and current liabilities, payments due within the year. Traditionally, if your balance sheet showed a positive working capital balance, it was considered good. David Kohl, Professor Emeritus from Virginia Tech and well known speaker on financial management, suggests maintaining a working capital balance of at least 20 percent of either your production costs or your revenue. This is your emergency fund and your buffer against the volatility we are experiencing.

8. Analyze a Number of "What If" Situations. Budgets of 2009 production costs are changing almost on a daily basis. A number of fact sheets on addressing high input costs are available on the Crop Watch website at: http://cropwatch.unl.edu/. Also available are a set of crop budgets which were updated in October. Since then diesel and fertilizer costs have declined. These budgets can be used as a guideline to develop your own breakeven spreadsheets. Run a number of "what if" scenarios to test the outcomes if prices of both inputs and outputs change.

9. Define Tasks, Responsibilities and Timelines for Decisions. This is the essence of what management professionals refer to as Quality Management Control. Once the budgeting and planning is completed, make sure the necessary tasks are defined, and that the responsibilities for each task are assigned to a specific person in the business. And finally, establish a timeline for the completion of the tasks and when additional decisions will be made. This system provides the checks to identify a problem if it occurs and the controls to correct it when it does occur.

All the Best for 2009

References:

John Lawrence. *Market Journal.* marketjournal.unl.edu, November 21, 2008.

David Kohl. *Market Journal*. marketjournal.unl.edu, October 10, 2008.

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Last Issue of the Year

Have a Safe and Happy Holiday!!!