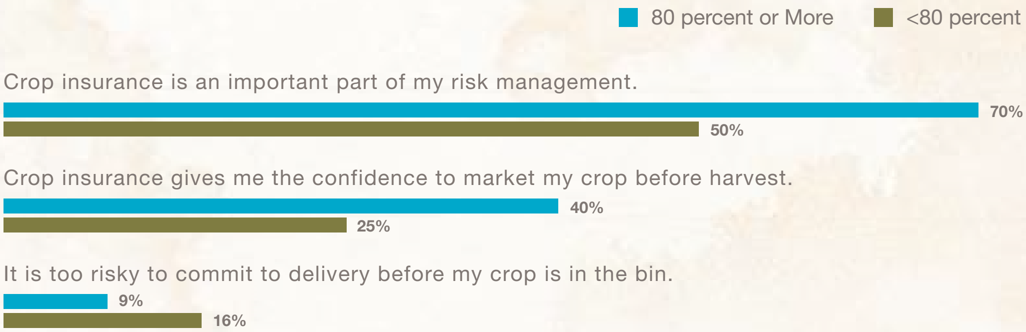
FACTORS THAT AFFECT MARKETING

Crop Insurance Coverage

Producers who buy at least 80 percent Revenue Protection for corn are more likely to indicate that crop insurance is an important part of their risk management plan. They also are more likely to agree that crop insurance gives them confidence to forward contract - and more likely to price their crops - before harvest. They are less likely to say that it is too risky to commit bushels before harvest.

Beliefs About Risk Management – By Corn Revenue Protection



Percent who mostly agree or completely agree

> **"The beauty of Revenue Protection is that it allows peace of mind for producers to take advantage of forward pricing opportunities during the growing season."**

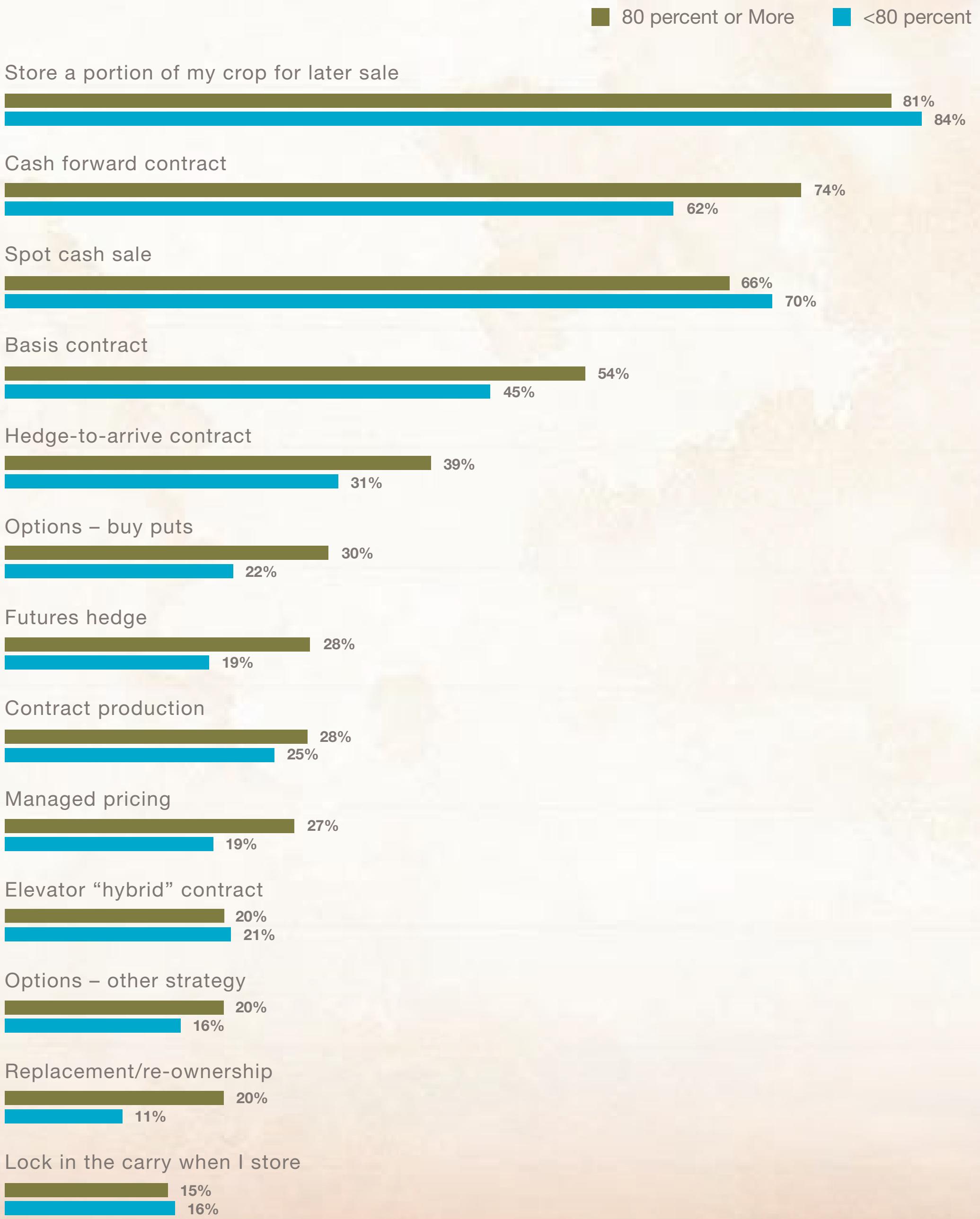
– Tony Jesina
FCSAmerica senior vice president – related services

The risk of forward pricing before the crop is harvested in order to capture seasonal price strength is failing to grow enough bushels and being forced to buy replacement bushels to fill the contract – possibly at a higher price. Given Revenue Protection's fall price adjustment, in a year when a weather event causes a shortfall and prices rise, indemnity payments help cover contract responsibilities.

For a mathematical example of how this works, visit frontierfarmcredit.com/connection.

The survey also revealed that the use of most marketing tools – and especially forward pricing – is higher among those having a higher level of Revenue Protection.

Use of Marketing Tools – By Corn Revenue Protection

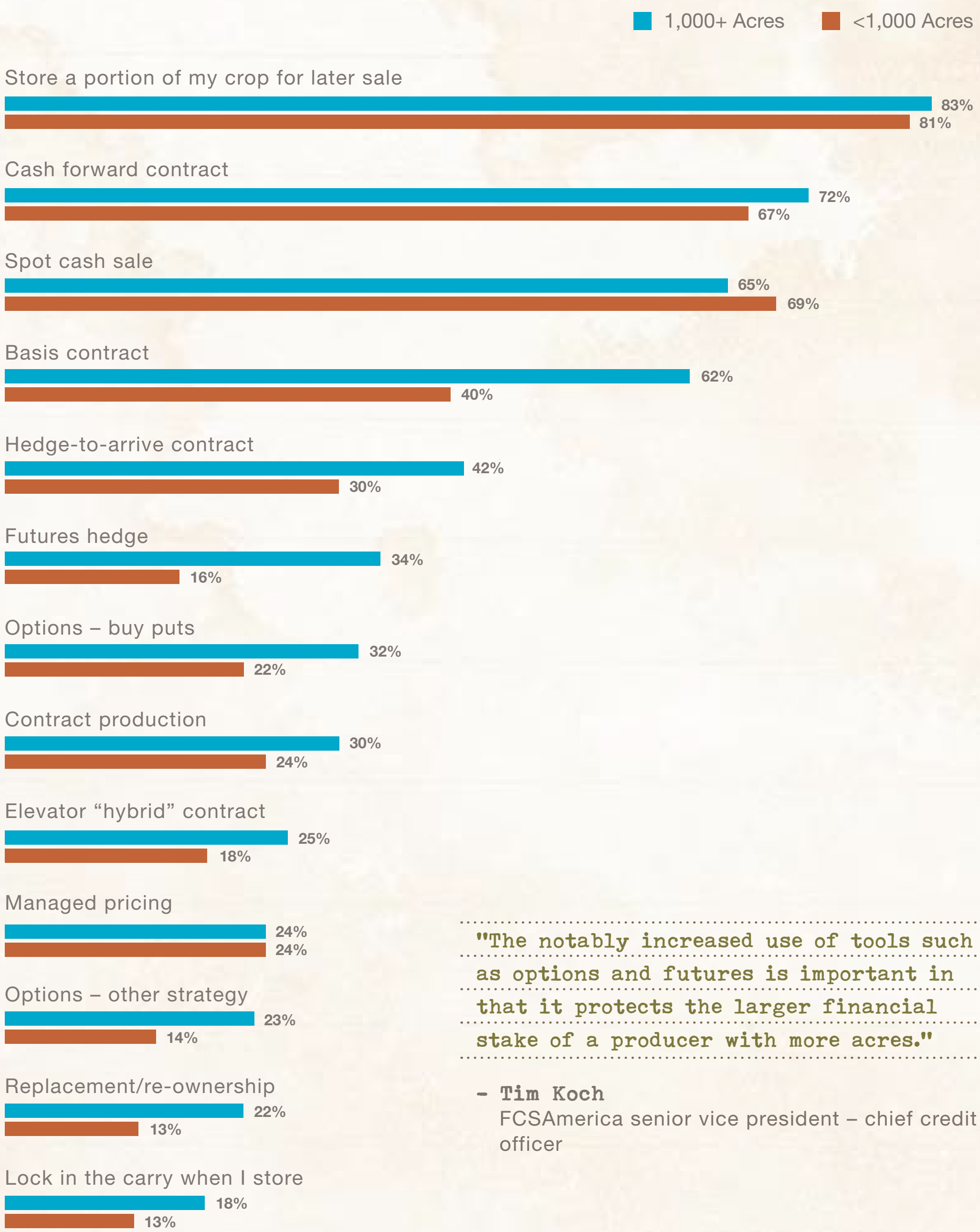


Percent of respondents

Size of Operation

Producers with more than 1,000 acres report using all of the listed marketing tools more except spot cash sales and managed pricing. The greatest difference is seen in their use of basis contracts: 62 percent of the largest farmers use them versus 40 percent of other farmers. There was an 18-point difference in futures hedges, a 12-point difference in hedge-to-arrive contracts and a 10-point spread in buying put options.

Use of Marketing Tools – By Acres



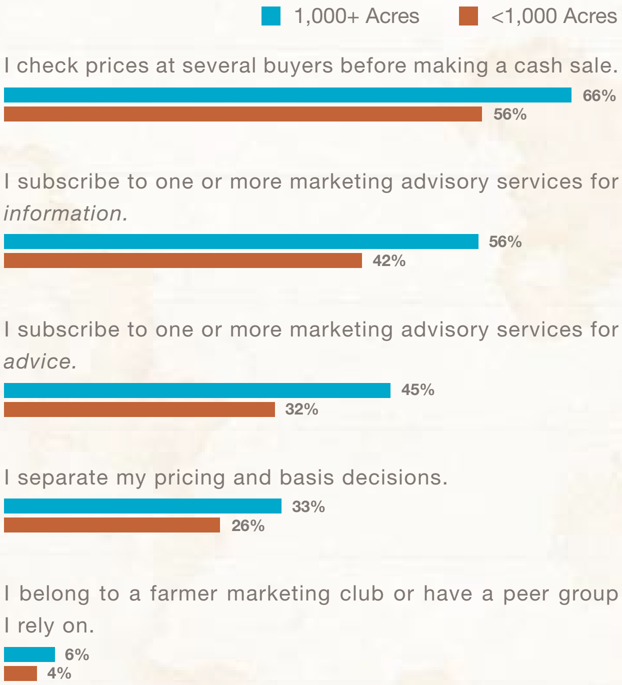
Percent of respondents

"The notably increased use of tools such as options and futures is important in that it protects the larger financial stake of a producer with more acres."

– **Tim Koch**
FCSAmerica senior vice president – chief credit officer

The largest producers also are far more likely to check several buyers before making a cash sale, to subscribe to marketing services for advice and/or information and to separate pricing and basis decisions.

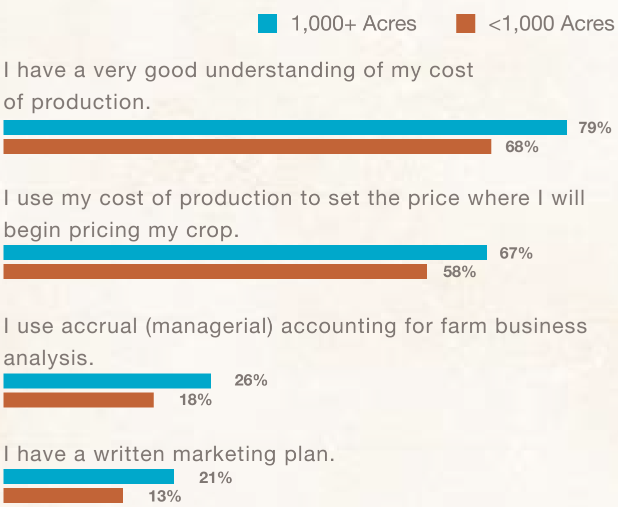
Use of Marketing Practices – By Acres



Percent of respondents

Differences in marketing discipline can be seen for producers with more than 1,000 acres. They are more likely to use all of the practices shown in the chart below, including understanding their cost of production and using it to set a selling price.

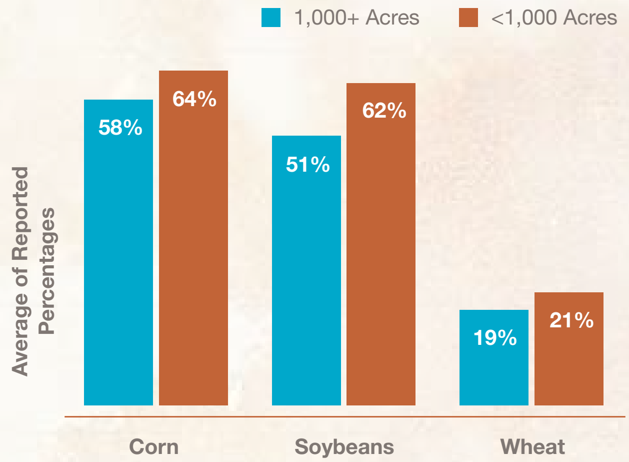
Marketing Discipline – By Acres



Percent of respondents

As the graph below illustrates, more smaller producers than larger ones use the highest levels of Revenue Protection.

Purchase 80 percent or More Revenue Protection – By Acres



"One reason for buying a lower coverage may be because production risk on large operations is somewhat reduced by farming over a larger area. Also, county-based plans may be more appropriate for larger producers, whose acreage represents a larger portion of county farmland and therefore may match county results."

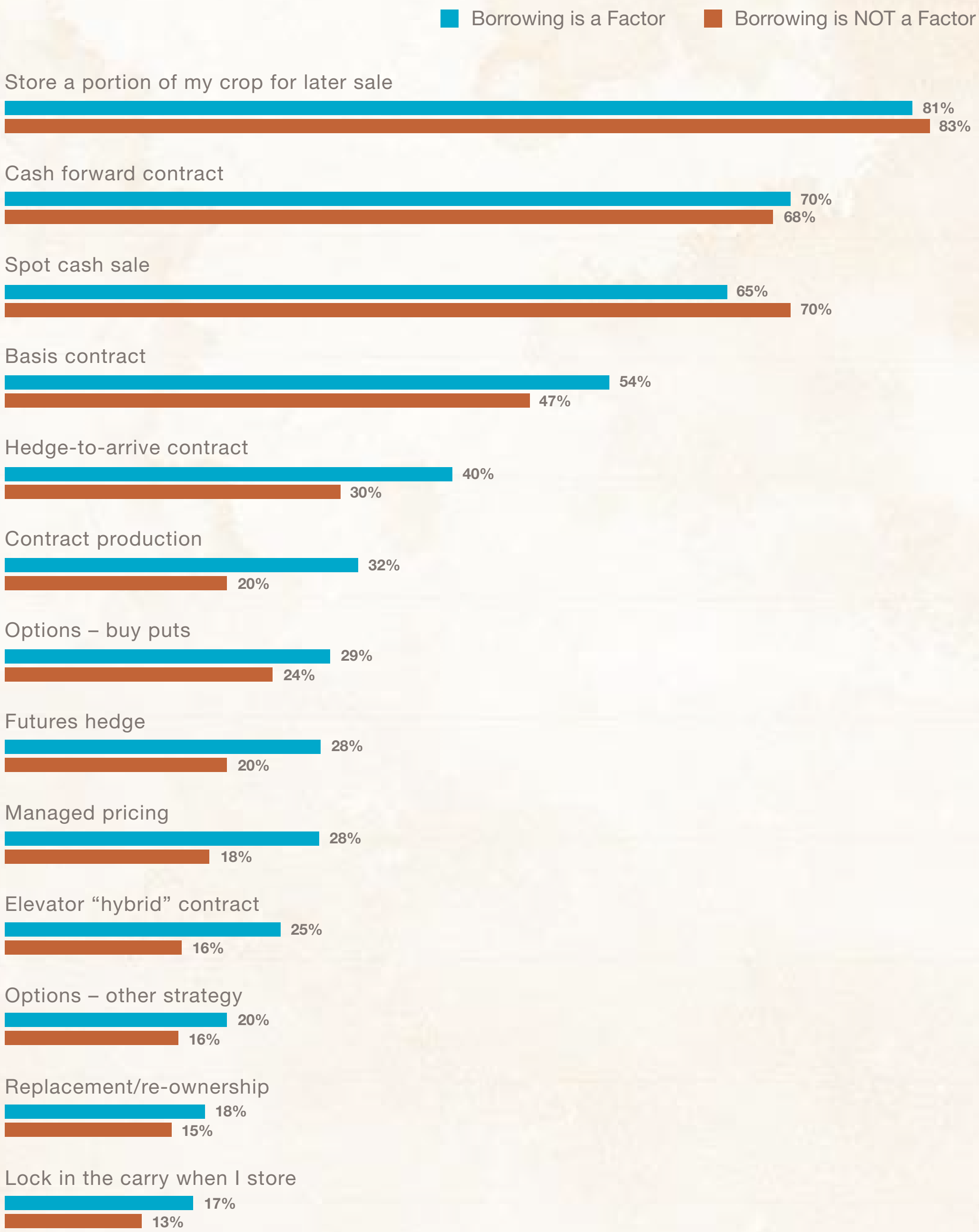
– Tim Koch
FCSAmerica senior vice president – chief credit officer

Borrowing

The survey asked: *"Is borrowing a factor in your need for risk management?"* Fifty-six percent say that it is, while 44 percent say it is not. The differences in use of various marketing tools was fairly consistent. With the exception of storing and spot cash sales, borrowers report more use of the tools listed.

Working closely with a lender who understands marketing may provide a sounding board for decisions.

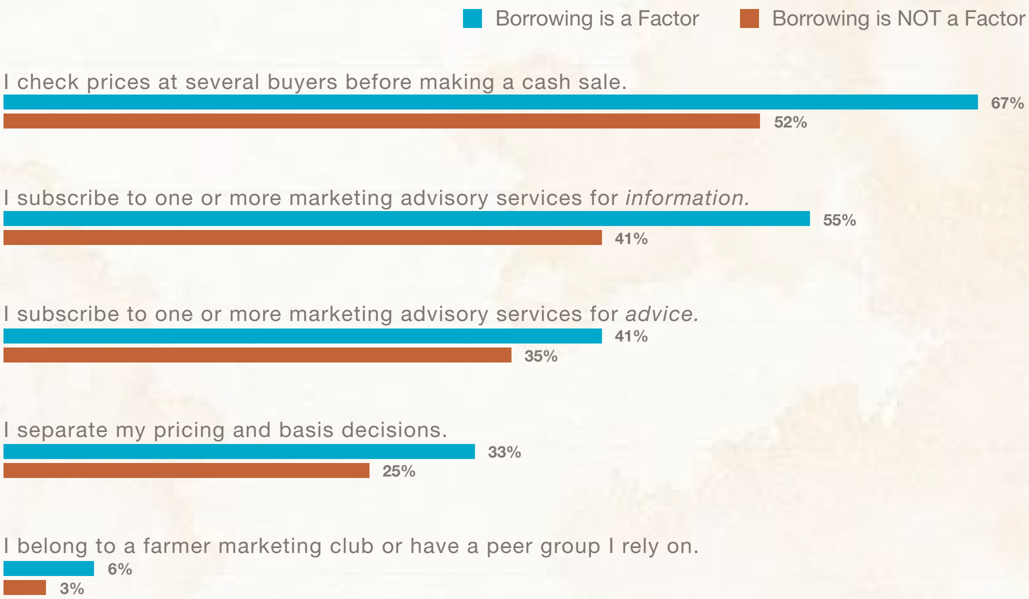
Use of Marketing Tools – By Borrowing



Percent of respondents

Those who say borrowing is a factor in their need for risk management also were more likely to check with multiple buyers before making a cash sale, use advisory sources for information and separate price and basis decisions.

Use of Marketing Practices – By Borrowing



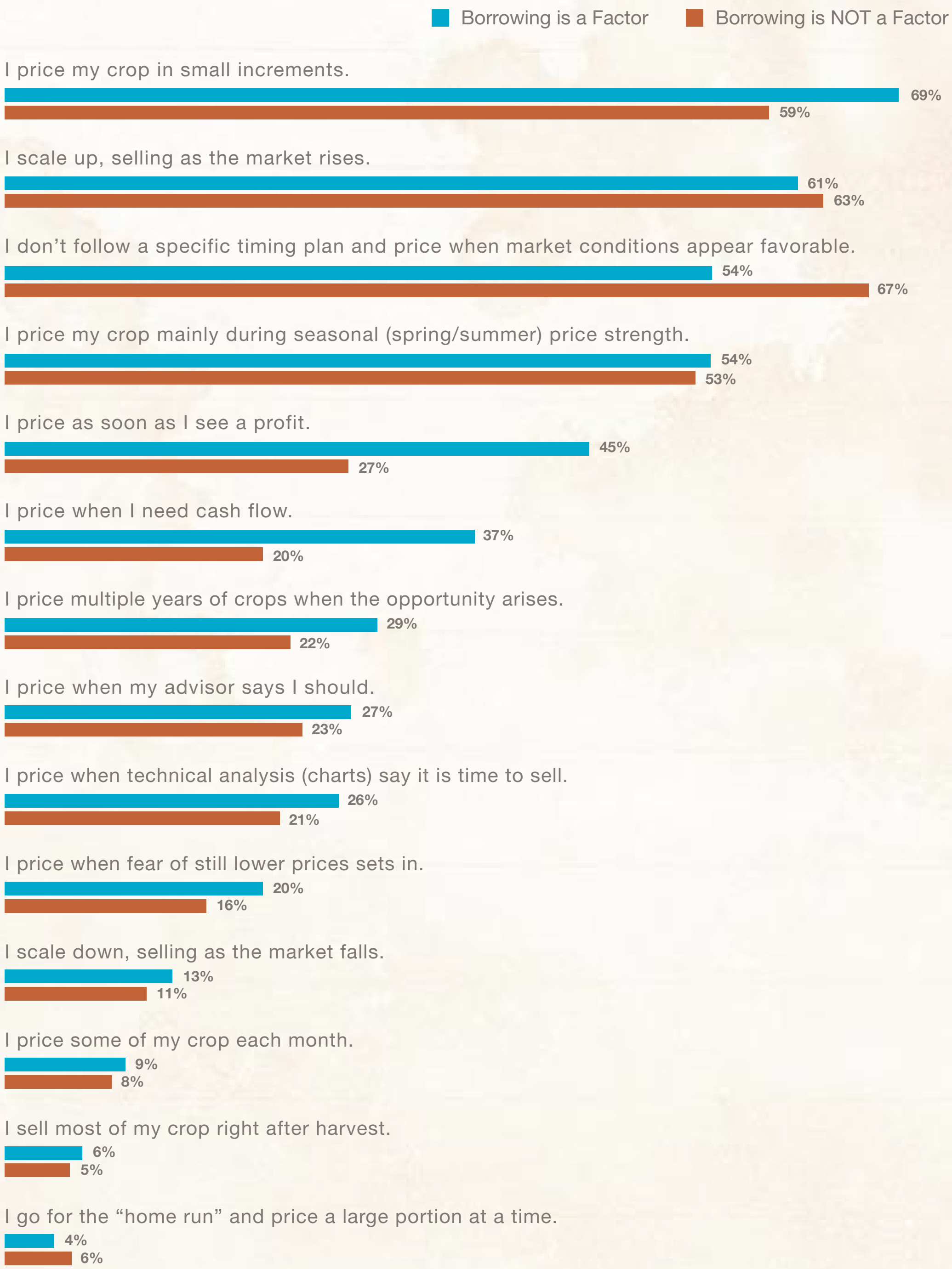
Percent of respondents

> **"It is critical your lender understands your marketing plan and provides access to the funds to support your risk management needs - from crop insurance premiums to option premiums to margin calls."**

- Tim Koch
FCSAmerica senior vice president – chief credit officer

As was the case with their use of marketing tools, “borrowers” also make greater use of various pricing strategies – with the exception of scale-up sales, sell when marketing conditions appear favorable and go for a "home run."

Use of Pricing Strategies – By Borrowing



Percent of respondents

Age

Farmers under 35 years of age rank risks differently than older farmers, rating weather and yield uncertainty lower than older producers, and a lack of marketing understanding as a higher hurdle to marketing.

Only 48 percent of young (under 35) corn growers and 49 percent of young soybean growers buy more than 80 percent Revenue Protection, compared with 62 percent and 58 percent of older corn and soybean growers. For wheat, however, the percentage who buy more than 80 percent Revenue Protection is the same – 20 percent – for both age groups.

"Subsidy levels materially drop off after 75 percent or 80 percent and that greatly impacts the premium. With an already limited cash flow, it's not surprising younger producers maximize the subsidy levels and don't insure at a higher level unless their lender requires them to do so."

– **Tony Jesina**
FCSAmerica senior vice president – related services

A higher percentage of under-35 producers use storage, basis contracts, hedge-to-arrive contracts, futures hedges, elevator "hybrid" contracts, lock in the carry on stored grain and managed pricing.

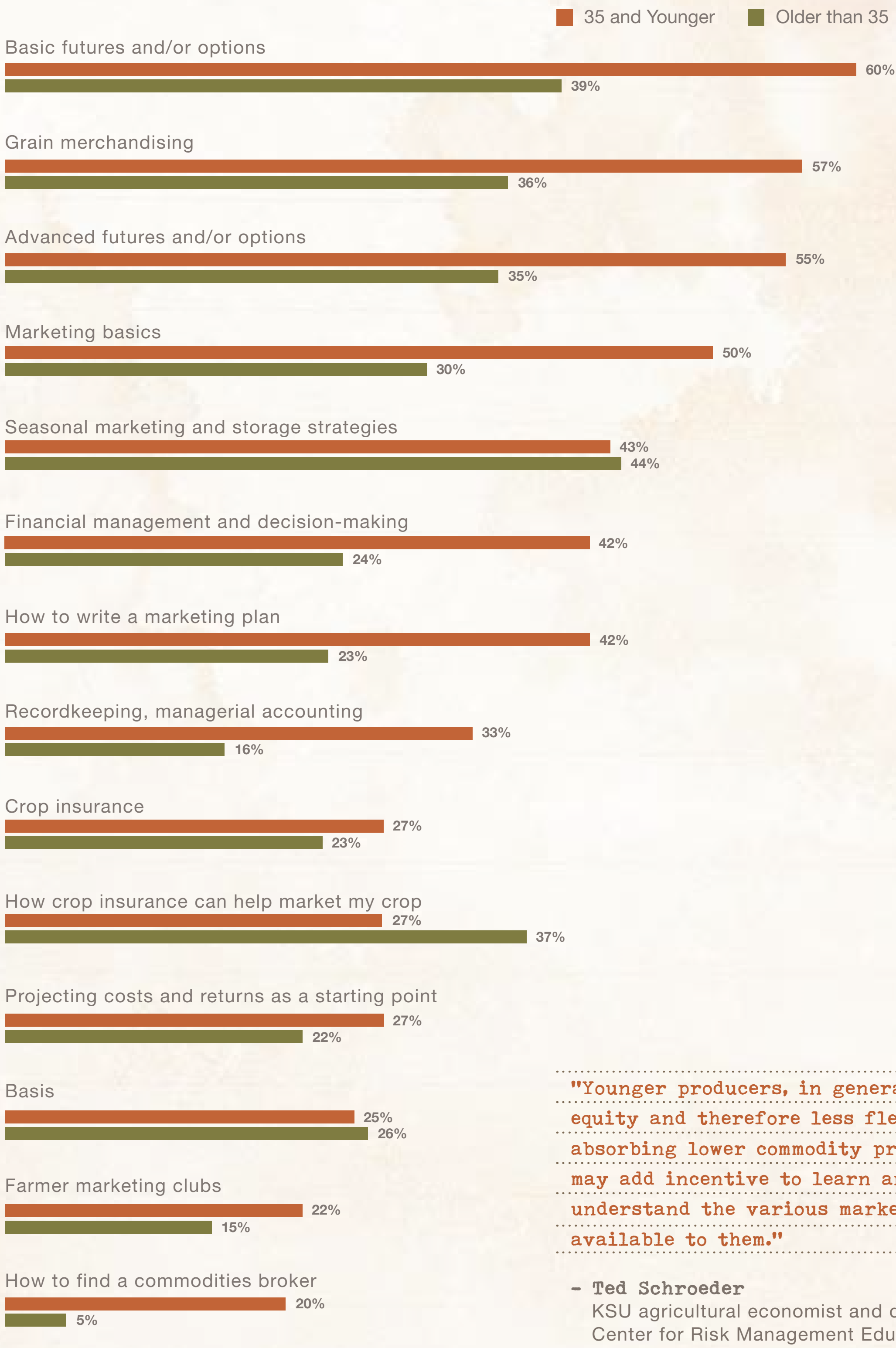
They are more likely to check with several buyers before making a cash sale and belong to a marketing club or peer group.

Use of Marketing Tools – By Age

Percent of respondents

Producers age 35 and younger have greater interest in learning more about many topics related to grain marketing, as shown in the chart below.

Interest in Learning More – By Age



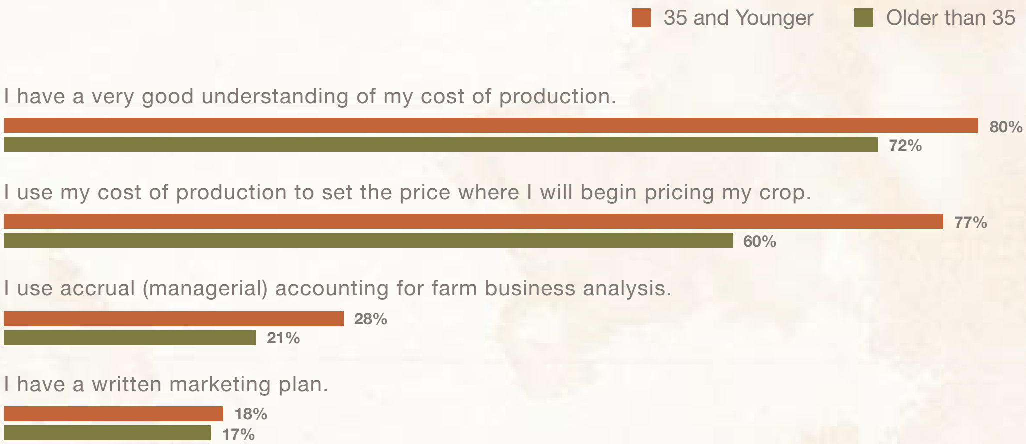
Percent of respondents

"Younger producers, in general, have less equity and therefore less flexibility in absorbing lower commodity prices. This may add incentive to learn and better understand the various marketing options available to them."

– **Ted Schroeder**
KSU agricultural economist and director of the Center for Risk Management Education and Research

They also are more likely to use their cost of production to set a selling price. About the same percentage as older producers have a written marketing plan.

Marketing Discipline – By Age



Percent of respondents

LOCK IN A PROFIT WHEN YOU SEE IT

Knowing their exact cost of production is the first step to successful marketing, said John Anderson, who farms 7,500 acres with brothers Aaron and Matt near Norfolk, Nebraska.

When market prices offer a profit, they make a sale.

John said they didn't always have a good handle on their breakeven, but working with a spreadsheet provided by their FCSAmerica financial officer, Matt Hoesing, they feel confident they do today.

Overhead and miscellaneous costs are the hardest, he said. "We use university custom rates for equipment costs, but inflate them to be on the safe side," he explained. "Matt also helped us nail our costs based on those of other customers."

John said he liked marketing in school, but it took a close association with a broker he trusts to jump-start his marketing plan. "We thought about hedging and options," he said, "but didn't really use them until we got to know a local commodity broker. Now we set targets and he helps with the timing. He also provides additional discipline."

The brothers use futures rather than options in most cases, though they may buy call options on 20 percent of their crop in case of a harvest rally. "In 2008, we sent $100,000 to Chicago in margin calls. That was hard," John recalled. "Even though it shouldn't matter in a hedge, it's easier when you get money back."

Their broker also has helped them with some strategies such as initially hedging in December corn futures and then rolling out to July. "We pick up an average of 10 cents on each roll," John said.

They also merchandise their grain, locking in prices on futures strength but locking in basis when it is favorable – often when prices are low.

They moved hedges of 2015 corn to 100 percent by the summer of 2016 and were already at 50-60 percent on 2016 corn ahead of harvest. They also priced some 2017 corn a year ahead. They didn't sell a bushel of 2015 corn under $4, though they did sell some 2016 production in the $3.80 range, according to John.

"Compared with the $8.50 soybean market at the start of last year, we ended with a really good year," John said. "We got a chance to sell all our 2015 soybeans into the cash market in July, and last summer, we also moved new-crop soybean sales close to 90 percent. As soon as we got into a breakeven or profitable level, according to the budget, we started selling beans."

"We were able to just keep scaling up our sales and average price. We didn't sell a lot at the top when unexpected price strength carried beans over $11, but we did average over $10."

"It means we can afford to sell ahead knowing that crop insurance would cover us if we didn't grow enough to meet the contract."

- John Anderson
Nebraska grain producer

Advance marketing helps the Andersons meet cash flow needs, including when they buy fertilizer in October-November or January-February time frames. When committing in advance, the brothers view Revenue Protection – which they carry at the 80-85 percent level on corn and soybeans – as crucial. "It means we can afford to sell ahead knowing that crop insurance would cover us if we didn't grow enough to meet the contract," John explained.

Looking ahead to the 2017 crop, the brothers have reduced the number of acres they rent and negotiated a 20 percent reduction in rent on one farm. With their insurance locked in and most inputs purchased, John said, "I believe the marketing opportunities will come. We just have to be ready."