

Managing Increased Volatility

This issue of "Profits" continues the subject of trends that are changing your business. These trends we discuss provide opportunities as well as risks. Managing them properly is the challenge.

One major trend I see is increased volatility in corn and soybean prices, costs and returns. A look at history may provide us a perspective that will help us look to the future.

The contract high for December corn in 1970, 1971 and 1972 was \$1.60, \$1.63 and \$1.64 respectively (see chart).

Notice the range from high to low during those years. It was from 43¢ to 51¢/bu. Then notice what happened the following three years, 1973, 1974 and 1975.

If we have a four-fold range expansion from the 37-year average of 99¢, we could see very volatile prices and a \$4 range. That may not be realistic, but if it is, that could mean corn between \$2.50 and \$6.50/bu. Most could probably describe a scenario for both.

With increased fertilizer, cash rents, fuel, machinery costs and other costs, not capitalizing on profit when it arises could spell disaster. Run a profit and loss statement with increased costs and \$2.50 corn with no LDP – that gets scary.

Soybeans had the same price and range changes during the early '70s and were even more dramatic. From 1972 to 1973 the range expansion was six times and stayed above three times for the next two years, 1974 and 1975.

The way to capitalize on opportunities and mitigate the risk on the downside is to take advantage of prices when you can

and lock in inputs where possible.

Tools are available to manage risk on both sides of the income statement. Procrastination will occur if you get greedy or if you don't have the data from which to make good decisions. You can't manage what you can't see and/or visualize, so the first step is projecting your revenue and expenses. This process has always been important, but it's magnified in importance in 2007 and beyond. As we look into the future, knowing what happened in the past may help. ■

Align Yourself With Suppliers

It will be critically important in the years ahead that inputs be available from a trusted, financially sound and capable supplier.

I see opportunities for alliances and various types of joint effort among producers and suppliers to help mitigate price risk and supply channel risk.

Being able to get fertilizer and chemicals at a great price has always been the objective for most producers. In the future having a consistent supply at a reasonable price with the appropriate level of service and support will be more important.

To accomplish that growers need the greatest mindset change. Suppliers can't take all the risk in the future and still be held hostage by producers who threaten to go somewhere else for lower prices. Supply uncertainties, supply channel logistic challenges and infrastructure costs are too large.

Consolidation of farming operations is changing the supply environment as well as outside factors. If a supplier traditionally supplied 100 growers' needs for 1,000 acres and now has 10 growers with 10,000 acres each, it's the same revenue. You can see my point in the different management challenges from producer and suppliers' aspects. ■

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December Corn Price Range
(Length of Contract)

Year	High	Date	Low	Date	Range
1970	\$1.60	9/15/70	\$1.16	3/13/70	\$0.44
1971	\$1.63	6/16/71	\$1.12	9/30/71	\$0.51
1972	\$1.64	12/14/72	\$1.21	6/29/72	\$0.43
1973	\$3.33	8/15/73	\$1.32	2/8/73	\$2.01
1974	\$4.00	10/4/74	\$1.95	9/6/73	\$2.05
1975	\$3.55	10/15/74	\$2.32	6/30/75	\$1.23
1976	\$3.00	9/7/76	\$2.31	11/15/76	\$0.70
1977	\$2.79	2/18/77	\$1.90	8/23/77	\$0.89
1978	\$2.77	5/31/78	\$2.16	8/11/78	\$0.61
1979	\$3.30	7/6/79	\$2.43	9/22/78	\$0.87
1980	\$3.96	12/1/80	\$2.87	4/1/80	\$1.09
1981	\$3.96	4/9/81	\$2.36	12/16/81	\$1.60
1982	\$3.46	10/14/81	\$2.14	10/25/82	\$1.32
1983	\$3.77	8/25/83	\$2.53	11/3/82	\$1.24
1984	\$3.30	9/13/83	\$2.52	12/13/84	\$0.78
1985	\$2.95	7/23/84	\$2.15	9/10/85	\$0.81
1986	\$2.35	9/25/85	\$1.51	12/19/86	\$0.84
1987	\$2.16	6/16/87	\$1.62	8/12/87	\$0.54
1988	\$3.70	7/5/88	\$1.85	9/2/87	\$1.85
1989	\$2.95	7/5/88	\$2.19	8/3/89	\$0.77
1990	\$2.97	7/2/90	\$2.16	11/27/90	\$0.81
1991	\$2.75	7/2/90	\$2.20	7/10/91	\$0.55
1992	\$2.76	3/10/92	\$2.05	11/11/92	\$0.71
1993	\$2.92	12/20/93	\$2.25	6/14/93	\$0.67
1994	\$2.77	6/17/94	\$2.11	11/23/94	\$0.67
1995	\$3.45	12/19/95	\$2.36	6/27/94	\$1.09
1996	\$3.89	7/12/96	\$2.38	7/12/94	\$1.51
1997	\$3.10	8/13/96	\$2.28	7/7/97	\$0.83
1998	\$3.00	10/22/97	\$1.96	9/1/98	\$1.04
1999	\$2.92	10/13/97	\$1.80	12/20/99	\$1.12
2000	\$2.83	6/24/98	\$1.86	8/11/00	\$0.98
2001	\$2.75	5/3/00	\$1.98	11/29/01	\$0.77
2002	\$2.96	9/9/02	\$2.15	5/6/02	\$0.81
2003	\$2.70	2/28/01	\$2.09	7/25/03	\$0.61
2004	\$3.42	4/9/04	\$1.91	12/2/04	\$1.51
2005	\$2.88	4/8/04	\$1.86	11/29/05	\$1.02
2006	\$3.78	11/30/06	\$2.34	8/18/06	\$1.44
Average	\$3.03		\$2.04		\$0.99