Knowing when and how to ship

Work the market to your advantage through timing and local transportation.

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In the '60s, Southern poultry and Southwestern cattle feeding grew rapidly and drew corn and soybeans from the Northern production areas. In the '70s, the growth area was export. To serve these markets, Corn Belt elevators increasingly performed what was essentially a transportation function: moving grain from trucks to railcars and barges that were efficient over distances.

Beginning in the '80s, however, some livestock / poultry operations shifted back into production areas. Growth in corn milling has occurred mostly in the Midwest. And of the ethanol plants currently under construction, most are located from Michigan to South Dakota, according to the Renewable Fuels Association. Those new plants alone will consume more than 150 million additional bushels of corn annually, based on their designated capacity. More soybean crushing operations are rising in the upper western Corn Belt as well, as soybean acres have migrated north.

Playing a role in local transportation

This shift to local consumption, along

with consolidation of farming into larger operations, creates a problem for elevators in those areas. The most efficient means for moving grain to its final market is by truck, but farmers have (or will readily buy) trucks. That in turn means there's no transshipment role for elevators to perform. Or is there?

There is often a silver lining when a large user moves into an area. Basis appreciation can be quite good. Typically, the area will remain surplus during harvest and perhaps into the winter. Basis will be cheap enough to allow grain to flow out to other areas.

In any case, being ready and able to ship whenever buyers are ready to pay up can add to your overall merchandising returns.

Later, there may be periods of balance, with enough grain moving from farm storage to stem local demand. During such periods, basis is high enough to keep grain from leaving the area but not high enough to attract grain from other areas.

But at times, farm movement may not be enough to cover local demand and basis has to be high enough to draw grain from other areas — from rail shippers, perhaps. These basis swings are on top of normal basis appreciation. The result is bigger overall basis swings from harvest lows to later peaks than exist in areas that are either surplus or deficit all year.

Elevators who get basis ownership early and do a good job of allocating it when local farm grain isn't moving can capture very good returns to space. The keys are 1) local knowledge, 2) space, and 3) the ability to ship grain quickly when it's needed.

Shipping at the right time

Most elevator manager / owners accept the need to dump quickly and fill during brief basis depressions during harvest. Less appreciated is the ability to ship quickly to exploit short-lived basis spikes later. This is often a low priority when considering capital investments. Some full-service operations relegate grain shipping to times when labor or trucks aren't busy with agronomy, and miss excellent merchandising opportunities. Thenthey find themselves competing with farmers to ship to local markets "when it's convenient." Clearly, this isn't a desirable scenario.

The solution is to have enough flexibility to handle agronomy *and* grain, and to be able to ship quickly. When a buyer will pay a high enough basis to draw grain from outside the area, the sale will be even better for the local elevator whose freight is cheaper.

Shipping quickly

Another challenge is being able to ship quickly when independent truckers aren't always available. The degree of that problem varies by regions.

To maintain their shipping capacity, some elevators buy a few trucks that are long in the tooth but operational. They get them cheaply, operate them over short distances, and park them when necessary. They may even hire sons or other relatives of farmers as drivers (farmers who might otherwise have bought trucks themselves just to keep the kids busy). Having this "budget-fleet" lets these elevators keep shipping when basis opportunities arise, not just when it's convenient.

These elevators also try to work with on-farm storage; they don't fight against it. They accept the bins are there, that more will likely be built, and set about seeing that farmers would rather invest their capital in land or equipment than in trucks.

Selling delayed price grain

Elevators also have a big merchandising advantage in being able to recognize the potential returns of selling delayed price (DP) grain when there is no carry in the market to provide a return for space.

Shorting DP basis can work even better when there's a big inverse! In any case, being ready and able to ship whenever buyers are ready to pay up can add to your overall merchandising returns.

The positives of an enduser

News that an enduser is coming may not seem like an opportunity, but consider the positives. Elevators perform services beyond just unloading trucks at harvest, and most offer a wider array of marketing services than the typical enduser. Producers may begin selling "direct" to the enduser, but they often find their elevator offers a better overall marketing partner.

But even if your volume and your handling revenue suffer, with some adjustments, there may well be offsetting merchandising opportunities to capture more overall revenue.

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