

MERCHANDISERS' CORNER

By Diana Klemme

A green toy truck and a yellow toy car are positioned on a map. The truck is in the foreground, and the car is behind it. The map shows various roads, rivers, and geographical features. The text "Avoid a logistics logjam: Balance merchandising opportunities with logistics" is overlaid on the map in a large, bold, yellow font.

Avoid a logistics logjam: Balance merchandising opportunities with logistics

Suppose you decide to build a house. Would you buy the materials first, or would you draw up the blueprints and then schedule subcontractors and get the materials?

In grain merchandising, having a “blueprint” of your facility’s logistics is also an important first step. I don’t mean literally having a blueprint of the bins or the trackage, but knowing your operation’s capacity for throughput — the logistics of when and how much grain you can receive, store, and ship. Trying to merchandise without a current blueprint is like building that house without a plan.

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your assets like inventory, capital, concrete, steel and transportation. Review your assets and quantify your shipping capacity and freight position before you start your spring and summer merchandising.

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Many merchandisers do a good job of evaluating and trading the

basis; fewer manage their logistics as effectively. This group may find themselves having to pass on good basis opportunities, or sell into weaker values just to manage transportation problems. The best basis opportunity won’t improve your bottom line if you can’t execute, i.e., you can’t ship what you need, when you want or if you have to pay-up for freight to meet obligations.

Logistical “blueprints” typically start at an end point or objective and work backward. Sound like a strange way to plan an operation? Consider this example: You need to reduce inventory to a certain level by a specified date. Perhaps you want to have only 10% of

Logistics Planning		
	Volume (bu.)	Time
+ current inventory	400,000 bu.	May 1
+ estd. receipts	250,000 bu.	May 1 - Sept 15
- inventory goal	(50,000 bu.)	Oct 1
= Grain to ship	= 600,000 bu.	May 1 - Sept 15

your space full on Day 1 of harvest in order to accommodate new-crop receipts. A logistics worksheet helps you develop a shipping blueprint so you can reach the desired inventory level in time. Assume it's May 1; you have 400,000 bushels of inventory and want no more than 50,000 bushels on hand on October 1. You also project you'll buy and take in 250,000 more bushels before harvest.

A simple logistics analysis would show; This example is abbreviated and simplistic, and the numbers are intentionally small to draw attention to the issues rather than the numbers. But the process is the same whether you load three trucks/day or three trains/week.

An actual logistics worksheet has to show more than one grain; and it should show your shipping capacity by month and by different modes, and ideally should show a transportation position. You can be long or short freight just as easily as you can be long or short the basis. Show your freight position by time slots: The worksheet should also list forward sales — by time slots — to further aid in planning. You can do a good logistics worksheet manually but it's far easier to use an Excel spreadsheet where you can also run "What if" scenarios and other analyses.

In this scenario you have to ship 600,000 bushels between May 1 and September 15 to be down to 50,000 bushels. If your shipping capacity is 200,000 bushels

per month – without interruption – you'll be shipping at top capacity every day for three months in order to be ready. May 1 to September 15 is 4.5 months so you would need to start paying close attention to basis opportunities, for both nearby and deferred time slots.

Analyze shipping capacity

Shipping capacity includes:

1. Load-out capacity: The maximum number of trains, cars, trucks, etc, that you can realistically load, working at your elevator's physical capacity. Consider the number of employees and shifts you currently have working to identify what you might need to do to meet your objectives.
2. "Wheels": the maximum number of trucks, railcars or barges you can secure and at what cost.
3. Destination limitations: Also consider the receiving capacity at your destination. For example, you may be able to load out 15,000 bushels/day, but your destination market is typically only open four days/week. That will reduce your shipping capacity unless you have trucks and drivers that will wait overnight to unload. Some destinations allocate truck quotas per day to shippers to avoid such congestion and limit receipts.

4. "Just in case" – It's wise to include a shipping 'fudge factor' – the slowdowns that are inevitable when legs break down or the weather won't cooperate.

Shipping capacity has nothing to do with the volume of grain you sell; it's a measure of the physical limits of your operation. (note: Some elevators also run direct farm to terminal positions which also require logistics planning.) To ignore logistics and transportation is to risk a bottleneck that someday will cost you money.

Make it routine

Regularly running a logistics worksheet will help you better merchandise your firm's grain. You'll be less likely to be unexpectedly forced to sell into a weak basis if you've planned ahead based not just on basis goals, but on shipping needs and constraints as well as cost of transportation at varying times.

Getting sales booked early at good levels, rather than at the best possible levels, is sometimes the best approach. That may increase your flexibility, maximize your shipping capacity, and let you keep shipping when others may be forced to sit idle, trying to outwait the inevitable basis sell-offs.

Use your logistics worksheet for preliminary harvest planning as well. Write down your bin space, subtract projected beginning inventory, and you'll have a rough idea of how much grain you can receive without having to ship. Then add in your total shipping capacity and you can determine the maximum volume your operation can handle in any given time frame.

Harvest 'look ahead'		
	Volume (bu)	Time
+bin space	500,000	Oct 1
+ shipping capacity	300,000	Oct/Nov
- projected inventory	(100,000)	On Oct 1
= max fall receipts	700,000	Oct/Nov

This simple example shows you can receive 700,000 bushels of grain during October/November as long as you are also shipping at capacity. If you think your volume projections are realistic, you know right now that you must make sizable basis sales and ship every day during harvest. Selling more than 300,000 bushels won't help in this case — according to your own blueprint this is the limit of your facility's October/November shipping capacity. If you think receipts will exceed the calculated maximum, you need other arrangements such as going on the ground. The value is in knowing early, well before harvest, what you'll face later, giving you plenty of time to make careful management decisions.

In 2009, the March USDA stocks report shows that there will

be almost as much grain to move before September 1 as last year's record second-half disappearance of 6.46 billion bushels of corn and soybeans. This year there are about 6.3 billion bushels to move, and managing logistics and transportation effectively will be key to maximizing profits.

What goes up . . .

What you buy and receive you must eventually liquidate. Don't get lulled by weak basis and wide futures carries, continually adding to a long basis position with no thought to the logistics of how or when you'll move the inventory out. The basis (carry) will eventually peak, and you'll want to be able to ship fast enough to capture those merchandising gains.

Monitoring your logistics position also lets you manage your

purchases and bids. Setting daily bids against premium markets can make you look great compared to your competition, but it's a loss waiting to happen if you can't execute to the best market. Buying against train values can be a trap if cars aren't available.

Tools don't build the house

A logistics worksheet by itself won't make money for you but it will keep you focused. Combine it with a detailed daily position Report, adequate working capital and bank credit lines, and a solid feel for today's merchandising environment, and you'll have the tools you need to "build your house." ■



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