



Planning Your Transition to the Organic Grain Market

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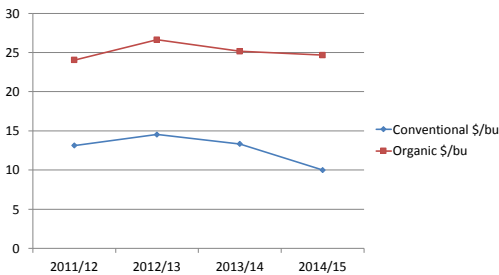
Organic Markets

Demand outpacing supply in many categories

Excess demand = price premiums = opportunity



Organic Markets: Soybean Prices



Outline

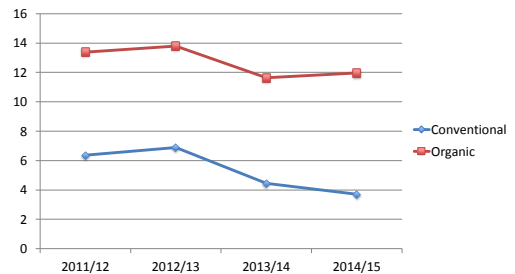
- I. Organic markets
 - I. Organic marketing challenges
 - I. Marketing plans
 - I. Planning tools

Organic Markets

“When we farm conventionally, our opportunities are the same as those for 99 percent of the other farmers. But we’re in the one percent category when we grow organically and that opens up a lot more opportunities.”

– Bryan Kerkaert, Minnesota grain farmer

Organic Markets: Corn Prices



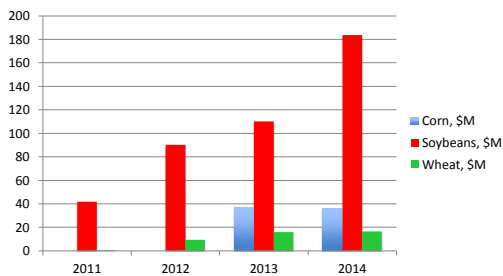
Organic Markets

MN FARMS: CORN ENTERPRISE AVERAGES	2011-2015	
	Conventional	Organic
Number of farms	8,118	135
Number of acres per farm	395	80
Yield (bu/acre)	168	108
Price (\$/bu)	4.86	11.75
Gross return per acre	865.01	1,387.30
Direct expenses per acre	592.27	490.93
Overhead expenses per acre	132.92	175.65
Net return per acre	139.83	720.73
Net return over labor and management per acre	104.35	680.86
Net return for corn enterprise (net return*acres)	\$41,218.25	\$54,468.80

Organic Markets

Double digit growth in *food sales* v. single digit growth in *organic and transitioning acreage*.

Organic Markets: Imports



Why Aren't More Farmers Transitioning in the United States?



Organic Transition Challenges

Tools for Transition farmers surveyed in 2014 identified several transition hurdles:

- I. Cash flow and net returns
- II. Financing
- III. Marketing

Organic Marketing Challenges

Specific marketing problems identified by Tools for Transition farmers:

- Finding buyers (38%)
- Finding markets for rotational crops (31%)
- Finding markets for small grains (38%)
- Proximity to markets (44%)

Organic Marketing Challenges

- Lack of marketing resources
- Lack of market liquidity
 - Few producers
 - Few buyers
- Lack of price transparency
- Lack of supply chain infrastructure
 - Transportation
 - Storage
 - Drying/processing

Marketing Plans

Plan Ahead!



Marketing Plans

A plan prepares you to:

- Address challenges
- Take advantage of opportunities
- Mitigate uncertainty



Marketing Plans

Marketing Plan Outline:

- Marketing overview
- Buyers
- Crops and rotation
- Certification and IP labels
- Pricing and contracts
- Storage and delivery
- Projected sales revenue and net returns
- Risk Management
- Recordkeeping

Marketing Plans

What are your marketing opportunities?



Marketing Plans: Buyers

- Processors
- Mills
- Elevators
- Brokers
- Farmer owned cooperatives
- Other farmers

Marketing Plans: Crops

What will you grow? How will you time your rotation?



Marketing Plans: Certification



Marketing Plans: Pricing

- Certified organic corn and soybean crops often bring a premium equal to 2-3 times conventional prices.
- Other field crops, such as small grains, may not offer the same premiums.
- Contact buyers to learn more about prices.
- Explore public pricing information – more available all the time!

Marketing Plans: Pricing

Premiums typically offered for identity preserved crops:

- Non-GMO crops are typically priced as a basis of the Chicago Mercantile Exchange (CME) futures price.
- Non-GMO price volatility mirrors CME price volatility.
- Non-GMO premiums for soybeans can be significant – \$1.00-\$2.50/bu over the CME price, while corn premiums are less substantive, ranging from \$0.00 - \$0.55/bu over CME prices depending on delivery conditions.

Marketing Plans: Pricing

What price the market will bear?

- USDA, AMS, Organic Price Report
- Mercaris auction price report
- FINBIN, Organic Farm Performance in Minnesota

Marketing Plans: Pricing

USDA			Bi-Weekly National Organic Comprehensive Report				
Thu, Nov 10, 2016 - Wed, Nov 23, 2016							
Organic & Foodnet Direct							
Compared to two weeks ago. Click on link on first grade organic grains monthly yields with linked data-report this trading period. Headlines are provided weekly (except for organic grains) and FIBIN data reports weekly (12/13/2016). For more information visit www.ams.usda.gov							
All prices are estimates. See disclaimer for more details. According to NACMUS National Organic Regulations for the week ending November 23, 2016, certain grains are not permitted (100%): cotton (unlimited 100%), sorghum (unlimited 100%), sunflower (unlimited 100%), sorghum (unlimited 100%), sorghum (unlimited 100%)							
Organic Grains - Feed Grade - FOB Prices				Organic Grains - Feed Grade - FOB Prices			
Commodity	Price Range	Delivered Elevator/Warehouse		FOB Farm Gate		Price Range	Avg. Price
		Price	Range	Price	Range		
Barley	2.15 - 2.25	2.00 - 2.20	NA	1.90	2.00 - 2.10	NA	NA
Sorghum	1.50 - 1.60	1.50 - 1.60	NA	1.50	1.50 - 1.60	NA	NA
Wheat	NA	6.00	NA	NA	7.00	NA	NA
Oats	NA	NA	NA	4.50	4.50	NA	NA
Rye	NA	5.00 - 5.50	NA	NA	NA	NA	NA
Hay	NA	7.00	NA	NA	NA	NA	NA
Organic Grains - Seed Grade - FOB Prices				Organic Grains - Seed Grade - FOB Prices			
Commodity	Price Range	Delivered Elevator/Warehouse		FOB Farm Gate		Price Range	Avg. Price
		Price	Range	Price	Range		
Barley	7.50 - 8.00	7.00	7.00 - 7.50	7.00	7.50 - 8.00	7.00	7.50
Wheat	NA	18.00	18.00 - 18.00	NA	20.00 - 20.00	NA	20.00
Oats	NA	15.00	15.00 - 15.00	NA	15.00 - 15.00	NA	15.00
Rye	NA	12.00	12.00 - 12.00	NA	12.00 - 12.00	NA	12.00
Sorghum	NA	NA	NA - NA	NA	NA - NA	NA	NA
Soybeans	NA	16.00	16.00 - 16.00	NA	16.00 - 16.00	NA	16.00
Wheat	NA	18.00	18.00 - 18.00	NA	18.00 - 18.00	NA	18.00
Hay	NA	12.00	12.00 - 12.00	NA	12.00 - 12.00	NA	12.00
Wheat	NA	18.00	18.00 - 18.00	NA	18.00 - 18.00	NA	18.00

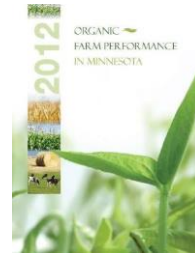
<https://www.ams.usda.gov/market-news/organic>

Marketing Plans: Pricing

Commodity	Type	Start Time (EST)	Status	Total Priced	Volume Traded
Organic Wheat (head)	standard	October 15, 2016 at 9:15pm	Filed	\$7.30	8000.0 bu
Organic Oats (head)	standard	September 17, 2016 at 10:25am	Filed	\$5.90	7000.0 bu
Organic Wheat (head)	standard	September 14, 2016 at 11:25am	Filed	\$6.60	17000.0 bu
Organic Wheat (head)	standard	August 18, 2016 at 4:20pm	Filed	\$6.60	8800.0 bu
Organic Wheat (head)	standard	August 7, 2016 at 1:00pm	Filed	\$6.60	11000.0 bu
Transitional Organic Soft White Wheat (head)	standard	July 26, 2016 at 4:30pm	Filed	\$4.50	11000.0 bu
Organic Hard Red Spring Wheat (head)	standard	April 7, 2016 at 3:00pm	Filed	\$14.00	5000.0 bu
Organic Wheat (head)	standard	February 6, 2016 at 1:10pm	Filed	\$6.00	29400.0 bu
non-GMO Corn (head)	reverse	January 26, 2016 at 1:00pm	Filed	\$0.66	8000.0 bu
Organic Wheat (head)	standard	January 25, 2016 at 3:30pm	Filed	\$7.90	10000.0 bu
Transitional Organic Corn (head)	standard	November 19, 2015 at 8:55am	Filed	\$0.20	10000.0 bu
Organic Corn (head)	reverse	September 15, 2015 at 10:00am	Unfiled	-	-

www.mercariscompany.com

Marketing Plans: Pricing



<https://finbin.umn.edu/>

Marketing Plans: Pricing

National Weekly

Non-GMO/GE Grain Report

<https://www.ams.usda.gov/mnreports/glgr112.txt>

Marketing Plans: Contracts

Minnesota Tools for Transition Project farmers prefer to market using:

- Pre-harvest forward contracts (38%)
- Post harvest spot or cash sales direct to buyer (31%)
- Other: farmer owned coops, brokers

Marketing Plans: Contracts

Contracts typically specify:

- Length of contract (1-3 years)
- Standards
- Grade (food, feed)
- Quality requirements
- Delivery volume (# bushels, # acres)
- Price
- Delivery

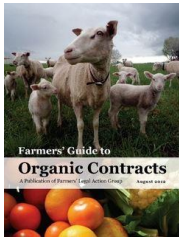


Marketing Plans: Contracts

Long-Term Forward Contracts:

- Typically 3 years
- Pricing negotiated annually:
 - Cost-plus (production costs + profit margin)
 - Use of previous year's average price for region (if available)
 - Conventional price + premium

Marketing Plans: Contracts



<http://www.flaginc.org/publication/farmers-guide-to-organic-contracts/>

Marketing Plans: Net Returns

Sales revenue = price * quantity sold

Net returns =
(sales revenue) – (variable + fixed expenses)

Calculate sales revenue and net returns for 7 years!

Marketing Plans: Storage & Delivery

How will you store crops, manage inventory and arrange delivery?



Marketing Plans: Risk Management

Farming risk comes from:

- Weather
- Pests and disease
- Learning curve
- Pesticide drift
- Price volatility
- Yield drag
- Co-mingling/contamination

Marketing Plans: Risk Management

Marketing Risk Management Strategies:

- Talk to other farmers, work with a broker as you learn your way around organic markets
- Contract ahead to mitigate price volatility
- Contract only a portion of your crop to protect against yield volatility
- Carefully plan for storage and delivery to prevent co-mingling
- Purchase crop insurance

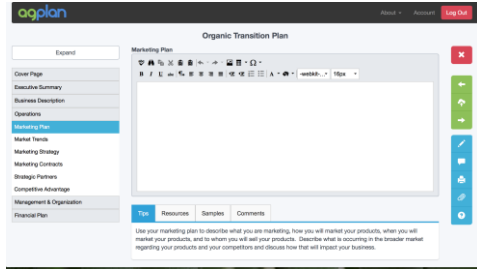
Marketing Plans: Recordkeeping

Your marketing plan should discuss how you will maintain a traceable audit required by certifiers and buyers:

- Harvest records
- Storage/inventory log
- Clean truck affidavit
- Equipment cleaning log

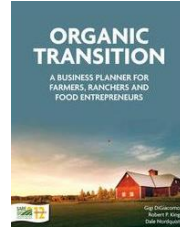


Planning Tools



www.agplan.umn.edu

Planning Tools



<http://www.sare.org/Learning-Center/Books/Organic-Transition>