*A*griculture &
*B*usiness
*M*anagement *N*otes ...

Retained Ownership: A Management Alternative for Crop Producers

Quick Notes...

Grain storage can increase feed availability.

Grain storage as a separate enterprise may reduce fixed costs of storing one's own grain.

Grain storage may allow opportunities to earn income through price increases.

Grain storage may be an integral part of one's income tax management plan.

Introduction

Retaining ownership of grain and other crops, rather than selling at harvest, is a management alternative that, under the right circumstances, can improve the profitability of crop production. However, additional risks are also associated with retained ownership.

There are three basic questions that every person owning grain must answer: (1) Why store grain? (2) Where or How to store grain? and (3) What are the costs of storing grain?

Why Store Grain?

Farmers, as grain producers, typically store grain from harvest to the time they sell the grain to another enterprise or person; i.e. until the grain is marketed. There are four main purposes for storing grain:

1. to ensure feed availability;
2. to earn profits on a storage enterprise;
3. to earn income via a price increase over the time during which the product is stored; or
4. to postpone receipt of income and thus the payment of income taxes.

Feeding grain to livestock is a typical method for some farmers to market their grain. Farmers may be able to reduce price risks and increase profits by storing and then feeding grain. Unencumbered grain that is stored can be readily and easily used to feed livestock, especially if the grain is stored on-farm.

Some producers may have sufficient storage facilities to store their own grain and grain for other farmers. In such cases, grain storage becomes a separate business enterprise. It is a way to reduce the fixed costs of storing one's own grain. Farmers who store grain for other people may have to change storage plans each year due to the quantity of their own grain, changes in government programs, and/or changes in the marketing plans of other farmers.

Storing grain to earn income through a price increase over time is a marketing activity requiring constant study of the markets. Cash prices can be quite dynamic, but the futures market and historical trends may provide some

indication of what cash prices might be expected. Use of the futures market via hedges and options or other pricing strategy may provide a person storing grain some price protection. However, there are risks of quality degradation and of price declines.

Storing grain may be an integral part of a farmer's income tax management plan. Farmers using the cash method of accounting can store their grain for future sale and postpone receipt of income. Hence, they delay payment of income taxes that must be calculated on the income from such grain sales. It is possible to deliver the grain and delay receipt of payment, but there are some specific risks with such a strategy. *It is important that farmers consult with their tax preparers to develop tax management strategies involving grain storage.*

Where To Store Grain?

After a producer decides to store grain, the decision of "where to store the grain?" must be made. On-farm storage or off-farm storage are the two options. The bulk of grain stored by farmers is stored on their farms. Many on-farm storage facilities were built in the 1970's due to soaring grain prices and government incentives.

On-farm storage provides a farmer with easy access to the grain for livestock feeding, and it avoids long waits at the elevator during the busy season. On the other hand, off-farm storage allows the farmer a means for storing grain without the need for owning storage facilities and for continuous surveillance of the grain.

What Are The Costs of Storing Grain?

There are various costs associated with storing grain. On-farm storage costs are different from those of off-farm storage, and each farmer will have different costs associated with storing his/her own grain.

A worksheet for estimating the costs of retained ownership of grain can be found at the end of this article. It is designed to help calculate the costs and break-even price of storing grain. The worksheet provides a step by step procedure for calculating the cash price needed at the end of each month of storage to off-set the costs of storing the grain in either on-farm or off-farm storage facilities.

Other Considerations

The moisture content of grain going into storage can have a major effect on the costs of storage and the quality of the grain coming out of storage. Also, moisture content generally sets a limit on how long grain can be stored safely.

Grain quality can change during the storage period. Grain can lose quality due to hot spots, insects, and molds. Regular inspection of grain in a bin is usually not expensive but still a cost that must be incurred. The costs of applying pesticides and other agents to help maintain grain quality must be considered.

The availability and cost of building and maintaining storage facilities and grain protection devices (blowers, dryers, etc.) can determine a farmer's ability to store grain on-farm. The types of facilities needed for grain storage vary with the commodity to be stored, climate, and future use of the grain.

Past government programs have allowed farmers to build on-farm storage facilities and then paid farmers to store their grain. Current programs do not provide the economic incentives to build storage and to store grain.

Conclusion

Grain storage is an activity that must occur from the time of harvest until the grain is converted to a human foodstuff or used as livestock feed. The time involved or the person storing the grain is determined by the

particular commodity, future use of the commodity, and costs of storage.

Farmers, as grain producers, need to answer the three basic questions about grain storage: Why store the grain? Where or How to store the grain? and What are the costs associated with grain storage? Only after answering these questions can an individual farmer decide whether or not to store grain.

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GRAIN STORAGE WORKSHEET
ESTIMATING COSTS OF RETAINED OWNERSHIP OF GRAIN

This worksheet is designed to help estimate the costs of holding grain in on-farm or off-farm (commercial) storage. Use it to calculate the price required in each month after harvest to give you a return equal to your "Harvest Sale Price." The break-even price for the end of each month after harvest is based on the harvest value of the grain, the number of bushels for sale after drying and handling shrink, and interest, ventilation, and drying costs for the grain and number of months.

1. "Harvest Sale Price" Per Bushel $ 4.25

2. Handling Costs Per Bushel (if stored) $ 0.05

3. Shrinkage Costs Per Bushel
   {a} Shrink 2.0 % * Harvest Sale Price $ 4.25 $ 0.09

OR Storage Costs Per Bushel
   {a} Commercial Charge Per Bushel Per Month $_____ +

   {b} Drydown Points _____ * Cost per Point $_____ = $_____ +

   {c} Aeration Charge Per Bushel Per Month $_____ +

   {d} Labor, Facility Maintenance, Other Charges
   Per Bushel Per Month $_____ = $ 0.00

4. Monthly Interest Cost Per Bushel
   {a} Cash Price Per Bushel $ 4.25 * (Interest Rate 10.5 %/12) $ 0.04

	Months That Grain Is Held After Harvest							
	1	2	3	4	5	6	7	8
Harvest Sale Price	4.25	4.39	4.53	4.67				
Handling Cost	0.05	0.05	0.05	0.05				
Shrinkage or Storage Cost	0.05	0.05	0.05	0.05				
Interest Cost	0.04	0.04	0.04	0.04				
Break-even Sale Price Needed (at end of month)	4.39	4.53	4.67	4.81				
Actual Cash Price	4.40	4.35	4.65	5.00	<--Sell since cash price is higher than break-even price.			

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Actual Cash Price								