

# Introduction

## The Grain Business Is The Best It Has Ever Been -- And Getting Better!!!

There has never been a better time to be in the grain business. It is a prosperous and growing industry that has great prospects for the future. There are two primary reasons that it has been so successful in recent years and will likely continue to do so. First, there have been major advancements in genetics and technology which have greatly enhanced crop production. As a result, farmers are able to produce more reliable crops with better yields. Second, the demand for grain products has grown tremendously. We use and consume more bushels than ever before. Having a consistent supply and a market with a healthy appetite has created a thriving industry.

The growth of the industry has been beneficial to all sectors of the grain business. Those that produce the crops, those that collect and redistribute the grain and those that turn the bushels into customer products all have an important job to do to meet the growing needs of the marketplace. For the grain elevator, which is our focus in this book, its services are needed now more than ever!

## A Different Kind of Market

Never has the market had such an insatiable appetite for grain. We are using more bushels at a faster pace than we ever have before. This tremendous increase in demand has created a different kind of market – one that is more sensitive and responsive to the needs of the marketplace.

A demand market reacts differently than one that is ruled by supply. A supply market has a steady pace to it. Basis and spreads are fairly consistent and predictable and you typically only get a rally in price when there is a disruption in production. Because of its steady nature, this is a relatively easy environment to manage.

A demand-driven market, on the other hand, creates a lot more volatility in the marketplace as price, basis and spreads respond more forcefully to its needs. In a demand-driven market, rallies in price can occur anytime, not just when supplies are short. There are more frequent changes in basis and spreads as these forces play a greater role in moving grain in and out of the marketplace. This is a much more challenging environment to manage; but, one that presents a lot more opportunity. . . *if you have the right skills.*

### **The Grain Elevator is Needed More than Ever**

The grain elevator has an important role to play in this new phase of the grain business. One of the reasons is that many of the big name companies have shifted their focus from the distribution and export of grain to the more lucrative value-added side of the business. These companies are making money by turning grain into products. They want somebody else to collect the grain and make it available to them in the quantities and quality they need.

There are also a lot more businesses in general using grain. The value-added sector has grown tremendously as more companies use grain to make a variety of consumer products. These businesses are locating themselves nearer to where the bushels are grown. As a result, regions of the country that once grew excess supplies which had to be shipped out of the area are now using the bushels locally. This trend will continue as the processing sector grows.

**All of these changes have been good for the grain elevator business. There are more markets for grain, they are more accessible, and the market needs the services of the local grain elevator now more than ever.**

What does the elevator have to offer? The most obvious benefit to the industry is the elevator's storage facilities; the industry needs someone to carry the grain in condition from harvest to the point in time the market is ready to use it. But, the elevator brings a lot more value to the market than just space. In many ways it is even more important to the industry in its ability to bridge the gap between producer and user.

Trading grain direct between producer and user is very difficult to do because each has different goals and needs. Producers want high prices and readily available markets when they are ready to move the bushels. Users want a steady supply at a reasonable cost. Consequently, the producer is not always ready to sell at the same time the user needs to buy; and the user may not want to buy at the same time there is an opportunity for the producer to sell. The elevator is the piece that makes it all work.

Through its merchandising skills, the elevator has the ability to separate the needs of buyers and sellers. The elevator can buy when the producer is ready to sell, sell when the user is ready to buy, and do it in such a way that meets the needs of both parties. What is especially advantageous is that the elevator can do all this with minimal/no fees to the customer (buyer or seller), and be very profitable by trading the basis. This is a win-win-win scenario that can be repeated successfully year after year.

An elevator that is effective in servicing the local market makes everyone stronger – it not only helps its customers but also has a real impact on the community and the industry as a whole. The elevator should feel good about what it has to offer and be encouraged that it is in the right place at the right time. The industry desperately needs elevators that can effectively service the demands of this growing market.

## Capturing the Opportunity

In the past, elevators could operate a successful business by storing grain for others, but as the marketplace has changed, the opportunities have shifted. Elevators don't make any real money just sitting on a lot of bushels. The opportunities for elevators today come from servicing the needs of their customers — the producers and the users — while at the same time securing their margins from the basis. This market-driven environment with a focus on customer service requires elevators to have different and more specialized SKILLS.

Elevators have to be good merchandisers; they need to understand not only the fundamentals of basis trading but also be adept at seeking out basis opportunities.

Elevators have to be aggressive and active sellers of grain all the time. They must be confident sellers, know what their grain is worth in terms of basis values and be able to identify and make good sales. SELLING is one of the most important aspects of merchandising. Like any other business, the elevator must find good markets for their products.

Being a good seller also goes hand in hand with servicing the market. As the needs of the market continue to grow, there will be greater demands on the elevator to service the unique needs of the buyers and users of its grain.

At the same time, elevators must continue to provide quality service to producers. As farms get bigger and more focused on profitability they will look to the elevator for the services that will meet their physical needs as well as their marketing objectives. Elevators will have to be able to dump grain fast and efficiently; and provide competitive prices and a disciplined marketing program that will support the producers' efforts to sell grain profitably.

In order to do its job, elevators will have to control their space. They cannot let other people's decisions dictate how grain moves in and out of the elevator. Space is a valuable asset that has significant earning potential, but in order to capture the value from the space the elevator must be in control of how it is used.

Elevators must be able to merchandise effectively in a demand-market. This means having the skills to deal with bigger swings in basis, spread inversions, and more rallies in price.

Elevators have to maintain a rhythm and balance to their merchandising so that they can function effectively in any environment. Whether there are high prices or low prices; carry spreads or inversions; big crops or small, a successful elevator has to be able to find opportunity in every situation.

SKILLS – SKILLS – SKILLS! Success in the grain industry – and in the elevator business in particular — all comes down to having good, solid ***basis trading*** skills. It is how the elevator will capture opportunity now and in the future.