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The Grain Target Price Calculation Program and Training

The Grain Target Price Calculation Project combines a specially developed computer application with training to help farmers, agribusinesses, and/or agricultural educators develop and implement a written marketing plan to provide a framework for positive decision making. Instead of simply responding to changing prices, farmers plan ahead how they might respond to alternative market outcomes. Written plans may help reduce the emotion involved in making actual marketing decisions. Instead of selling grain because the land or machinery payment is due or because the neighbor is hauling grain, or it just seems like "the right time to sell", or bins are full, farmers price because stated objectives have been met.

What Are Marketing Plans Based On?

Marketing plans can be based on substantially different foundations. There is no one perfect method and each method will have different strengths and limitations. Some plans can be purely mechanical. Examples would include plans that call for pricing equal quantities each month or even each week of the year. This method argues that averaging is superior to trying to "time" the market. Other mechanical plans could be based on some form of "technical analysis" such as pricing a specified percentage whenever some trigger is hit. There are endless variations on these types of strategies.

Another broad form of developing marketing plans is based on cost or cash flow considerations. These plans generally derive price targets that satisfy some degree of profitability or cash flow recapture. These types of marketing plans assume the market will ultimately produce prices equal to or above the derived initial triggers. Otherwise these types of plans are not very helpful for within season pricing decisions. Some market advisors call for plans to be based on full cost accounting procedures. Other market advisory services would not recommend using this technique because it frequently results in price targets that are well above existing market offers. They would argue that full accounting costs are relevant to enterprise selection and land/capital purchase decisions but they are not well suited to short-run, 12-18 month, marketing decisions.

The Grain Target Price Calculation Computer Program

The Grain Target Price Calculation Computer Program is founded on a form of cash-flow based marketing plans. The argument is that farmers can fairly easily and accurately account

for all the cash that the farm must produce in order to repay all annual cash commitments without relying on outside sources of cash inflow. The easiest example to explain is for a farm that is exclusively a cash grain farm, with no tobacco, fruits/vegetables, hay or livestock. In this case, cash outflows would include all production needs, i.e. seed, fertilizer, lime, herbicide, insecticide, fuel, machinery repair, custom work, hired labor, drying, trucking, etc., plus all annual cash payments for machinery, owned or leased, all annual land payments, taxes, insurance, utilities, interest on operating loans, etc. Whatever amount of money must be spent to run the farm must be recaptured through cash receipts from the operation of the farm. This total sum of projected cash needs can be divided by production to obtain prices needed per bushel to achieve the needed cash recapture level.

Since it is recommended that written marketing plans be developed well in advance of the planting season, it is impossible to know what production will result. The Grain Target Price Calculation Computer Program produces price targets at three different yield levels -- pessimistic, most likely and optimistic.

For More Information

For additional information about this computer program and training, please contact the developers, [Curt Judy](#), [Todd County Extension](#) Agent for Agriculture or [Steven K. Riggins](#), UK/AEC Extension Specialist in Grain Marketing.

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For problems or questions about this Web Page, contact [Karen Pulliam](#).
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