Storage as Part of a Grain Marketing Plan

Consider all factors when using storage as part of a grain marketing plan. Many producers prefer to market their crop right off the combine, without storing it on the farm. However, that's not always possible due to contract requirements, tight delivery and shipping opportunities. Alternatively, producers may just want to wait for higher prices in the future and use grain storage as a marketing strategy.

Cash flow needs and a lack of bin space can pressure producers to sell before they want, but this can usually be avoided with proper marketing and financial planning. Without proper planning, a producer may hold on to grain too long while waiting for prices to go up, only to watch markets level off or drift even lower. So, how long can grain be stored economically before the costs of on-farm storage outweigh the benefits of holding the grain?

There are several factors at play. The potential for price erosion, the amount of carry in the market, the cost of physical storage, quality risks and interest rates are key to making a strategic decision.

Price erosion

Crops not sold off the combine and stored unpriced is a form of speculation. Farmers believe the price will go up, even though it may not be the case. Producers can protect themselves from a loss in the value of their stored commodity by using various price protection strategies, such as:

- a fixed price contract through a grain company with a deferred delivery
- an options contract
- hedging using the futures market

Producers can check with their local elevators for the prices being offered for deliveries in future months, to see if there is enough carry in the market to warrant holding onto the grain. If so, this justifies using storage as part of the marketing strategy.

A producer can then agree to deliver at a certain time in the future to lock in the price. It is important to know if the carry in the market is greater than what it costs to store the grain, but that all comes down to understanding the cost of grain storage and the opportunity cost of holding onto the crop.

Cost of grain storage

The cost of grain storage is significant, but often overlooked. Storage costs can be fixed or variable.

- Fixed costs (also known as ownership costs) include depreciation, investment and insurance. Depreciation is the loss in value of an asset over time due to wear and tear and obsolescence. Generally, the annual depreciation rate of a bin and dryer is 5 and 10 per cent of the original cash cost respectively. Property taxes and insurance premiums for protection from wind, fire, impact, hail, lightning and vandalism are also considered fixed costs.
- Variable costs are the investments required to maintain safe and adequate storage, including:
  - bin repair costs
  - power or propane for a forced air grain drying system
  - labor, equipment use and other handling costs
  - shrinkage
  - possible spoilage and/or grade loss

Opportunity cost

Interest is a significant cost when holding grain in the bin. The actual interest cost to a producer depends on their cash flow situation. For most it is the cost of current outstanding credit. In this case, the interest cost would be equal to the value of the grain times the interest charged on an operating loan or line of credit. Producers who do not have debts would consider the interest cost as the rate of return that could be made on investments. This calculation can be used to gauge the carrying cost of stored grain.

For example:

  - (Operating Loan Interest Rate x Value of Grain Per Tonne) / 12 x Storage Period
  - (8% x $225) /12 x 14 months = $21 per tonne
  - Therefore, the interest cost of holding the grain for 14 months would be $21 per tonne.

Related links

- Grain Bin and Farm Building Rental Cost Planner (Online, Excel) enables farmers to estimate rental costs on a monthly, annual or square foot basis.
- Grain Drying Cost Calculator (Online, Excel) enables farmers to estimate grain drying costs for batch or continuous flow dryers.
- Hay Storage Cost Planner (Excel) enables farmers to estimate the profitability of hay storage by comparing storage costs to unprotected storage losses.

Contact us:

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