CropLife.com

CROPLIFE | CROPLIFE IRON | WEBINARS | SUBSCRIBE | ADVERTISE | ABOUT US

Home | News | Viewpoints | Equipment | Crop Inputs | Retailers | Technology | SEARCH

News Archives
2009
2008
2007

Home > News

Ag Outlook: Good News, Bad News

November 4, 2008

Send Share Print Text Size: A A A

A Purdue University expert says if you've already purchased a portion of your inventory, such as fertilizer, you'll face some losses this year. But there's positive news, too.

If you've already bought product, blame your losses on the drop in fertilizer prices since you made the purchase, says Allan Gray, interim director for Purdue's Center for Food and Agribusiness.

"There's going to be the desire to hold prices at a high level because a price was paid for them, but this will be difficult to do especially if the markets continue down," Gray says. "If you've presold fertilizer to farmers, you're going to face pressure from them to reduce the price.

"If you don't reduce the price, you face counter-party risk," he says. "Farmers are not willing to pay high prices now that prices have come back down. They may choose to switch crops and won't need fertilizer. Just because they've had a good couple of years doesn't mean they will pay those high prices if they can go across the street and get a better deal."

Gray recommends agribusinesses on the input side prepare to work through these types of challenges.

Not all agribusinesses are in the same situation as fertilizer dealers. The downward shift of the stock markets and commodity prices has the general economy sitting tight, but unlike the general economy, some agribusinesses are facing piles of cash they weren't prepared for, Gray explains.

Earlier this year when grain prices were at their peak, agribusinesses in the grain side had to pay out large amounts of money to meet margin calls, Gray says. Now, with the unexpected downward turn, they are seeing the return of that money.

"If you have a lot more working capital than you've had in the last six months, don't feel uncomfortable about having those financial reserves sitting there," he says. "In volatile times like we're facing now, it's not a bad idea to have a little cash on hand."

He also says agribusinesses can expect to see an increase in credit requests. The financial crisis has not heavily affected agriculture and most banks that lend to agriculture have plenty of money to lend, but they are tightening their credit standards.

"This means they will be asking farmers for more information to prove their creditworthiness, which means at least at the margin there are going to be farmers who don't get credit," he explains. "That would likely mean an increase in demand for retailers and those that serve agriculture to help finance those inputs."

Gray says it's important for agribusinesses to be aware and diligent in understanding credit worthiness and one's ability to repay, and at the same time recognize the opportunity to serve agriculture.

"There is a use for that new working capital," Gray says. "If you receive credit requests from customers you don't normally receive credit requests from, ask a lot of questions. Make sure you understand their risk management plans and their repayment capacity."

Gray says he can't stress enough the importance of asking questions. He also recommends keeping a close eye on accounts receivable to keep accounts, bad debt loss and estimates for bad debt loss in line. This will help to make sure a good reserve is available, because not all accounts credited will be able to repay during the next year, he states.

Finally, Gray noted that in uncertain times, agribusinesses should not lose focus of serving their best customers at the highest level. “This can help them to maintain their competitive position so that they’re around when the markets turn back around.”

Designed to help agribusinesses keep their competitive edge, the Center for Food and Agribusiness will host their national conference Nov. 18-19 at Purdue’s West Lafayette campus. According to Gray, the conference will focus on understanding producers and their desire for services and information, as well as their loyalty and sensitivity to prices. It will address agribusinesses’ ability to improve their value offering to producers in good times and bad. Email Megan Sheridan, call her at 765-494-8151, or visit the conference Web page.

(Source: Purdue University)

Related Articles:

Guide Promotes Safe Ag Trucking
It’s the beginning of another planting season, and agricultural vehicles are back on the roads and in fields. A new educational publication provides safety strategies for drivers.

Dealership Security Weekly Tip: Lighting
Barriers III: Lighting

ERA Entry Deadline April 30
U.S. retailers wishing to enter the 2009 Environmental Respect Awards (ERA) have until April 30 to mail their entry in.

Dealership Security Tip: Barriers II
Containment area upkeep is important.

What's Your Take?
It’s become a *CropLife eNews* tradition: the early-season article series, which provides manufacturers the opportunity to explain their philosophy and provide practical advice on a specific, timely retail market concern.

Comments:

Submitted by: fred butt
November 6, 2008
You Have To Be [Kidding] Me!!!!!!!!!!!!! We are small business's/ faremer's Coop and you write a news letter like that to put us out of business. We are not a social agentcy, but a business that buy equipment that advirtise with you! We employee people, make them jobless? Fred Butt Crescent City Il.

Leave a comment: ***(All fields are required)***

Email: (Will not be displayed)

Name: Anonymous

Comment:

Submit Comment