DPP Allows Growers to Capitalize on Market Volatility

by Bruce Erickson

Surveys show that farmers in general do not feel as confident in their grain marketing skills as compared to their ability to do many other tasks around the farm, such as grow and manage crops. Adding to marketing concerns is that commodity prices have been more volatile in recent years (see June, 2005 newsletter, http://www.agecon.purdue.edu/topfarmer/newsletter/TFCW6_2005.pdf). While volatility can complicate marketing decisions, there are also new tools that can help farmers deal with price volatility.

“Market volatility can be intimidating, but like it or not, it’s here to stay,” says Jason Tatge, CEO of Farms Technology, LLC, who spoke at last month’s Top Farmer Crop Workshop. Farms Technology offers one such tool to deal with volatility—the Dynamic Pricing Platform, or DPP.

DPP is a software tool that electronically connects all three participants in the grain procurement process via the Internet. The DPP connects the grain seller, buyer, and the futures market. If a transaction is made, the DPP can automatically generate a futures order to hedge the recent grain purchase on behalf of the buyer. According to Farms Technology, the DPP lets producers name their target price on cash grain sales, and watches the markets with every tick of the board. When the producer’s cash price is reached, the DPP executes the sale on behalf of the producer.

“The producer has to realize that market volatility can be their friend, as long as the markets trade both up and down,” continues Tatge. “If producers are using the DPP to watch the market, and to lock in a profitable price, they’re taking advantage of that volatility for their benefit. The market doesn’t always take prices too far down; sometimes it takes prices too far up. If you can use the DPP to sell grain at those times, you’re making volatility work for you.”

The traditional way of doing this type of business is on the phone. “If you think about it, you have to be watching the market at the right time, be near a land line telephone (or have enough signal strength on your cell phone), and then get through to the buyer at the right time. With the DPP, it takes your offers anytime, and it watches the market for you all the time,” adds President Ben Zaitz. Farms Tech has sold tens of millions of bushels of grain for their farmer customers on market rallies.

“The DPP is watching for producers when they cannot,” relates Tatge. “You tell our system how much you want for your grain, and you can walk away knowing that the DPP is shouldering some of your management burden by automatically executing your sales at your price.” Producers can log in to the DPP 24 hours a day, and make offers, change the price on their offers, or cancel their offers altogether. This might prove especially valuable during the busiest times of the year for the producer, like during planting, spraying, and harvesting. It is also your assurance that your grain buyer will properly execute your order. The cost of the transaction is a penny per bushel, often paid by the grain buyers who are using this system, and only if the offer is accepted.

Purdue Ag Economist and marketing specialist Chris Hurt sees utility in the system, but offers these comments. “Producers must realize that an offer on the DPP is a contractual obligation. If the price level is reached the trade is executed and they are legally obligated to meet the volume and delivery provisions. Doing business electronically can also change some of the communication dynamics...
between the buyer and seller as well.” Offers expire in 30 day if not renewed, and Farms Technology sends an email to the potential seller inquiring about renewal a few days before expiration.

While producers understand the role DPP might play for their marketing, they often wonder what is in it for the grain buyer. “While it’s easy to answer, it’s not always easily understood,” explains Tatge. “What we do is match the flat-price seller’s asking price, with the buyer’s basis bid, and use the futures volatility to get both what they want. If the buyer can get the futures hedged at his or her basis level, and the producer can get priced on the rally, both parties get what they want.”

Ted Hinton, Director of Marketing at Farms Tech, adds a historical perspective “While it sounds counter-intuitive, the grain industry has been doing business this way for over a century now. The difference is that Farms Tech has automated it, and we now use computers and the Internet to communicate much faster than we ever could over the phone. It’s difficult to get around the fact

An actual bid chart showing cash price as tracked by the DPP (high, low, open, and close) and the corresponding basis charges for the buyer.
that the computers work quickly, efficiently, and inexpensively. Some people resisted the early mechanization of agriculture. The computerization of agriculture is no different. If you can trust a computer to steer your tractor, why not use one to sell your grain?”

**For More Information**
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The final step of the offer wizard, showing basic details of a multi-location offer. With an actual multi-location offer, when one location’s bid meets the seller’s price, the offer to the other location is automatically cancelled.