



Agriculture and Natural Resources  
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NOTE to editor: This is one in a series of articles produced by University of Wisconsin-Extension agents and specialists to address farming through difficult times. More articles can be found on the Extension Responds website at:  
[www.uwex.edu/ces/ag/farmingindifficulttimes.html](http://www.uwex.edu/ces/ag/farmingindifficulttimes.html)

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### Managing through Difficult Times: Commodity Storage

Madison, Wis. – You may have recently read recommendations of “consider increasing on-farm fuel storage capacity to take advantage of current prices” and “consider adding feed storage, so that as feed prices drop, you can stock up on supplies.” These recommendations should be considered very carefully according to University of Wisconsin-Extension specialists and agriculture agents.

William Edwards, Agricultural Economist from Iowa State University in an article “Managing Through a Recession: options for farm operators” on their Ag Decision Maker web site recommends, “Defer capital purchases. When margins are narrower, replacing machinery, putting up new storage bins, or bidding on more land may have to wait. Replacement parts and overhauls are cheaper in the short run.”

UW-Extension specialists note that building storage generally requires large expenditures of capital, which should be budgeted over a long period. In many cases, these investments do not pencil out with a one-time price opportunity. For the one-time price opportunity, consider using existing storage or low cost storage alternatives. Renting space at the coop or from a neighbor can also be considered. Another opportunity is to purchase futures contracts or buy options (to reduce price risk) for the commodity.

Remember one important cost of storage is loss of quantity (shrink) and/or quality while in storage. Care must also be taken to assure you are getting a high quality commodity when buying in bulk at a “reduced price.”

Since commodities represent a major component of input costs, increasing management to minimize the loss of quantity and/or quality of these inputs can pay big dividends. For example, improved management of forage in storage can reduce the losses of dry matter and feed quality. Managing grain in storage helps maintain quality. This extra care of what you have can reduce the quantity of feed that must be purchased to replace that which is lost. Often times, the extra management has a relatively low cost to implement with a high return on investment.

Knowing your current supplies of forage, grain, and fuel as compared to your future needs can provide opportunities. Doing a periodic inventory of stocks shows what commodities are in excess and what need to be purchased. Knowing this in advance allows you to sell the excess, generating cash, and purchasing needed supplies when the opportunity is right. Even though cash may be tight, paying cash can also reduce the purchase price depending on your supplier's discounts.

If you had been considering a new storage structure and are in a financial position to do so, then now may be a good time to buy. Interest rates are low, and prices may be attractive.

To access more information and/or tools to help analyze your situation, link to the Extension Responds web page at: [www.uwex.edu/ces/ag/farmingindifficulttimes.html](http://www.uwex.edu/ces/ag/farmingindifficulttimes.html)

For assistance in making these tough decisions, contact your UW-Extension county agent, your Farm Business and Production Management Instructor in the Technical College or the DATCP Farm Center at 1-800-942-2474.

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File: risk management, farming in difficult times