

Forward Contracting of Inputs: A Farm-level Analysis

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“Forward Contracting
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Forward contracting of factors of production is a growing activity between the suppliers of inputs and the farmers who use them. Forward contracting of inputs also guarantees farmers an assured supply of inputs at a specified price.

Farmers choose to forward contract their factors of production for two basic reasons; first, getting price discounts and “locking” in a certain price for the inputs. This reduces the input price risk. Second, contracting of inputs ensures quality and timeliness of input deliveries.

A logit model was used to identify the factors that influenced the likelihood that a farmer used forward input contracting. Model results suggest that use of contracted sales of crop and livestock, use of new technology, managerial ability, and participation in government commodity programs significantly affect the likelihood of using forward input contracts. Farms with gross sales of \$100,000 or more (medium, large, and super large) are more likely to participate in forward contracting relative to smaller farms. Region was also an important variable, with farmers in the Midwestern region more likely to use forward input contracting relative to farmers in the Southern region. Finally, farms specializing in cash grain production are more likely to use forward input contracting than farms specializing in dairy.