

A guiding light in grain trade: new roving grain buyer Lighthouse Commodities emphasizes financial controls

Young company takes care to follow strict protocols

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BISMARCK, N.D. — The 2019 crop year looks fraught with stormy financial seas — with low commodity prices and high fertilizer and input prices.

A newer entry to the market space is Lighthouse Commodities of Bismarck — a “roving grain buyer” as regulated by the North Dakota Public Service Commission, but with an unusual array and combination of functions and strict internal financial controls.

Lighthouse has a \$2 million bond, but its top officials say its real value is a system of discipline and integrity.

“It’s our job to keep our farms on course and out of the rocks,” says David Spickler, the company’s president and co-owner. The protections are in the company’s “back office” — processes, procedures, risk policies, separation of duties, capitalization — that are more common in large companies and ensure the follow-through that farmers must have in a time of tight margins.

Spickler, 37, has a feel for the farmer clientele because he grew up on a cattle ranch east of Carrington, N.D. He earned an animal science degree from North Dakota State University in 2004 and expected a career in livestock nutrition. But he became involved in commodity trading while on a feedlot internship with Sinner Brothers & Bresnahan at Casselton, N.D.

Out of college, Spickler took a post in risk management for Cargill, working with large livestock enterprises. He went to become chief risk officer for Midwest AgEnergy, the company that manages two large ethanol plants in North Dakota.

In 2015, as farmers were facing commodity price downturns, he left the ethanol business to establish Standard Commodity Manage-



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Jess Middleton is chief financial officer and Dave Spickler is president of Lighthouse Commodities LLC of Bismarck, N.D. Lighthouse is licensed as a “roving grain buyer” but offers an unusual combination of marketing advice and performance functions. *On the cover:* Dan Zimmerman, 62, and his son, Jay, 35, raise soybeans, corn and sugar beets near Amenia, N.D. In late 2015, they became the first clients Lighthouse Commodities. The service has helped them manage marketing, especially during busy planting and harvest, when they need to be busy in the fields.

ment, which the company later renamed as Lighthouse Commodities LLC. Spickler is the majority shareholder.

With Spickler are Jessica “Jess” Middleton, 29, the company’s chief financial officer, and Andrew Kabes of Deshler, Neb., the chief operating officer.

Lighthouse has intentionally kept a low profile as they’ve deliberately added clients slowly, growing to about 60 clients. In fact, the company says it so far has never lost a client.

Their contracts so far cover about 320,000 acres. Clients pay no up-front fee but a 1.5

percent “marketing fee” when cash grain is sold. There is no fixed per-acre fee that is more typical for consultants.

“We get paid based on how much grain the farmer produces, and how well we do marketing it,” Spickler says. “That’s how every how every farmer in America gets paid.”

‘Roving license’

The first clients at Lighthouse were the Zimmerman family of Amenia, N.D.

Dan Zimmerman, 62, and his son, Jay, 35, raise soybeans, corn and sugar beets. They

learned of Spickler through their Pioneer seed dealer and through NDSU connections.

“Marketing has always been kind of a headache,” Dan acknowledges. He appreciates the independence of Lighthouse, where the farmer-client is the only focus. Choosing grain marketers is always something of a “leap of faith,” but he says Spickler’s track record in the ethanol business was important.

Dan says Spickler has encouraged them to focus on hedging — using futures and options — and maximizing the “basis” received on cash sales. “It’s another person to bounce ideas off,

and having another person have a real educated perspective," Dan says.

Jay says Lighthouse helps the family keep on top of things during busy planting and harvest seasons. "It's easy to put the marketing on the back burner and lose touch a little bit with where your positions are. Some of last year's most pivotal marketing decisions came during 2018 planting," Spickler notes.

Lighthouse is unusual because marketing consulting/futures and options brokerages often don't actually execute cash grain trades, like Lighthouse does. And most cash trading companies don't offer access to a variety of cash markets and few also provide marketing, futures and options services.

Here's the Lighthouse client process:

- Lighthouse puts baseline client-farmer information into a web-based software system; every season they start with acres, input costs and expected yields. They use a mobile app licensed from Myriad Mobile of Fargo.

- The Lighthouse team and the farmer discuss profitability goals, risk, storage capacity, timing and cash flow needs, as well as general market outlook.

- Each client works with a dedicated farm merchandiser through the year.

- When a marketing goal or recommendation on futures or options is met, the merchandiser acts as a futures and options broker to execute the trades.

- In most instances, the best market is local, but Lighthouse reviews "all cash markets to find best value and have the ability to ship to an optimal market regardless of its location."

- Lighthouse provides a logistics manager, who aligns freight for sales to destination markets or for clients who want to ship their own grain.

Internal controls

Middleton grew up on a livestock farm at Mekinock, N.D., just outside of Grand Forks, N.D., and graduated in accountancy from the University of North Dakota in 2014. She immediately went into an ag-related career at Blue Flint Ethanol at Underwood, N.D., where she worked with Spickler. In 2016, Spickler hired her for his new commodities business.

Spickler says Middleton was named CFO because she offers an unusual background for a financial officer — thorough understanding of general accounting, commodity accounting



Jay Zimmerman, 35, farms with his father, Dan, 62. They market their soybeans and corn through Lighthouse Commodities, LLC, to keep on top of marketing decisions to make timely trades during planting and harvest.

and foreign currency accounting. Middleton says integrity is ordinary in most of grain business, but lists a set of controls that more and more farmers are paying close attention to. Among them:

- Widmer Roel CPA of Fargo annually conducts a full financial audit, available in reports to regulators and lenders under confidentiality agreements.

- Lighthouse clients receive payment within 10 days of transactions, unless given other

instructions. They pay through electronic funds transfer whenever farmers accept that. Legally, payment is required in 30 days. "We prefer to pay our producers and our vendors, freight carriers, on a weekly basis," Middleton says. She says this is a standard that was normal in the ethanol business she came from.

- Lighthouse has a detailed and strict risk management standard operating policy. It spells out risk controls, including defining how

much price risk the company can take. ("None," Spickler says, tongue-in-cheek.)

- Lighthouse segregates employee duties so that different individuals handle different steps — negotiating the contract, writing the contract and paying for the contract. This limits the possibility of mistakes or bad behavior, Spickler says.

- Lighthouse has more than 200 written procedures — mundane to complex — that "define virtually every task we do," Middleton says, noting redundancy is built in.

- All companies that buy grain from Lighthouse first must be vetted through a credit review. Before dealing with a buyer, Lighthouse would want to talk to a grain buyer's banker and past customers. "It would include information on whether they pay in a timely fashion, if their honest and communicative in their business dealings," she says.

The company establishes internal credit limits based on the review and monitors those limits for compliance each week in an accounts receivable report and meeting.

"This ensures we don't have someone fail to pay us and in turn hinder our ability to perform," Spickler says. And failing to perform is not an option if Lighthouse clients are to get through today's headwinds so they can enjoy the fair winds and following seas that are sure to come. **AG**



It's easier to keep up on grain marketing this time of year, between equipment maintenance projects, but much harder during heavy fieldwork periods such as planting and harvest.