

# SELLING ALFALFA IS JUST LIKE SELLING ANYTHING ELSE

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## ABSTRACT

One grower's perspective on alfalfa marketing. A brief description of the markets this grower uses, and other techniques to attempt to maximize crop income and minimize credit risk in the alfalfa production business.

**Key Words:** alfalfa, marketing, credit, quality, dairy, horse, Central Valley

## INTRODUCTION

My family has been growing alfalfa for well over a century in the Los Banos area. At present we produce between 20,000 and 25,000 tons per year. Of this, about 85% is sold direct to local dairies, and the remainder is sold via a broker/distributor, to the horse market. Steve Orloff was kind enough to ask me to join this panel, and give my own perspective on the important things a grower can do to make sure he or she gets fair value for the hay we work so hard to produce. He had some key points he would like each of us to cover, and I am going to add a couple of my own.

## PROCEDURES

***First, put the majority of your effort into the things you can control.*** We growers can't control federal dairy policy, water availability in other regions, overseas demand for powdered milk, and dozens of other important factors that affect the hay market. Nor can we control the market itself. We always sell too cheap. I have never heard of a farmer who thinks he got too much for a crop, whether it is corn, hay or peaches. When we gripe about our prices, however, we forget that we are the ones in charge of our cost of production. And the cost that matters is not the absolute, per acre cost (as long as you have access to operating capital), but the *unit cost per ton of production*. Someone bragging at the coffee shop that they got ten dollars a ton more than you may have production costs fifteen dollars a ton higher. You need to be sure you are growing the right variety, in the right place, the right way. Use the UC Variety trials, not the baseball game tickets a salesman gave you, to make a decision you will have to live with for five years. Take soil tests, fertilize and amend the soils accordingly, prepare the ground properly, and plant at the right time. Take tissue samples in subsequent years, and act on what the plant is telling you. Here's an example of higher per-acre costs lowering unit costs. Several years ago a speaker at this Symposium pointed out that it made better agronomic sense to plant alfalfa in the early fall, and to sprinkle it up when both daylight hours and temperatures were favorable. This is considerably more expensive than seeding at Thanksgiving, then convincing yourself that "it always rains by Christmas, or maybe New Year's, or one of these days". I have proof adding this cost makes

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economic sense as well, because we get good solid stands, and can cut the first year fields just as much as we cut the older fields.

Controlling your costs first means knowing your costs. An accurate accrual accounting system can tell you if something is going awry long before you wake up to a nasty surprise. Simple cash accounting is like going to the coroner instead of the doctor. You will get a good diagnosis, too late. Likewise, keep an accurate inventory to be sure you know what you have to sell, and to be sure you are not having loads of hay mysteriously disappear. Fast, accurate invoicing is not just a courtesy to your customer, it prevents excuses for late payment, and eliminates unpleasant wrangling over mistakes. Years ago I wrote a database program to track our yields, generate sales contracts, and produce invoices. Fred Darland<sup>2</sup> has written a far superior program, which we use. Best of all, Fred has to deal with updates, not me! If you only have a few fields, you can probably do just fine using an Excel spreadsheet. But hand-written ledgers, incomprehensible statements, and selling the same lot to two people because you had bad inventory controls belong in the days of farm-made soap, and are just ways to lose business.

Finally, control the value of your crop. Alfalfa is not a low-value crop, but a grower can make it so. If you are growing alfalfa for money, not for fun, you need to farm it just as intensively as a valuable vegetable crop. Just because it is Saturday afternoon and the son-in-law is hanging around bothering you does not mean it's time to send him out to cut or bale the alfalfa. Weeds can and should be controlled as vigorously as possible. Since cows don't do a whole heck of a lot except eat hay, they are very good at it. Poorly put up or stored hay won't feed, no matter how it tests. Your reputation, your future, rides in every bale that leaves your farm. Obviously every bale can not be Supreme quality dairy hay. Other qualities have uses, too. Whatever it is, make sure you have made it the best way you can, and be honest about quality.

***Second, know and value your customers.*** Farmers think they are unique, but selling hay is no different than selling shoes or sailboats. Explain, listen, be fair, and remember that the customer is always right. Because my family sells direct to the end user, it is a lot easier to make the grower/buyer connection. But I would encourage dealers and co-ops to do the same. Sure, some unethical creep might take the dairyman aside and suggest they cut the broker out of the deal eliminating the middleman; thus, in theory, freeing up the \$ 5-\$10 that the broker earns for his troubles. But if your clients value your contribution so little that they would do this routinely, you need to ask yourself what kind of clients you have, and what value you actually bring to the table. Listen to your customers, introduce them to the baling crew, let them see the hay growing in the field, the person who sends out their bill, the next generation working on your farm. Likewise, visit them, and see if the animals are healthy, the facilities modern, clean and orderly, the workplace safe, content, and sober. A dirty, contentious, unsafe workplace, says a lot more about a dairyman's business ethics than any credit report. Operators know their animals and their habits, and each has very specific ideas of the hay they want. Make hay for them that way, and, amazingly, you will not be haggling over prices so much. If a load does not feed properly, or does not test or milk the way you said it would, take it back or give a discount. A few dairies might take advantage of you once or twice, but they are the kind of dairies who would never pay you anyway.

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<sup>2</sup> [www.haysoftware.com](http://www.haysoftware.com)

And remember to value your customers. Send them a small gift at Christmas, or put on a simple daytime barbeque. Dairymen, just like other farmers, enjoy talking with their colleagues, and are often surprised to see who the other guys are who buy your hay. Finally, if this year did not tell you something, understand that if dairies do not make money, you do not make money. If all you ever try to do is wring the last nickel out of a guy who is already hemorrhaging cash and worried half to death, you will not be given a break when the tables turn. Bargain for a fair price, but don't kill the goose that lays the golden egg.

***Third, get paid.*** I am a lot happier getting \$130 in cash than \$150 in promises. We run regular credit checks on all our customers, and set strict credit limits. When times are tough, like this year, we make smaller sales contracts, or even agree to fix the price on a larger quantity of hay, but allow it to be taken only as loads are paid for. And fixing the price for a quantity of hay means what it says. Too many hay buyers bamboozle farmers into putting hay aside for them, without any firm commitment to buy it at a fixed price. This amounts to selling a free option, with all the risk borne by the farmer. You would never do this with real estate or stocks, and should not be expected to do it with hay. Either you get paid for an option, or it's back to first come, first served. Honesty breeds honesty. Be frank about your need to be paid, and work to understand the economics of your customer's business. Some dairymen are great at making milk, but not so hot at making money. If his business model makes no sense, or if the person is not well respected in the general community, sell COD or not at all. "Not at all" is my preferred way of dealing with shady characters, because even if you get paid, the sleaze rubs off on you; and sure as hell they will find some way to be annoying for you anyway. If necessary, talk directly with the dairy's lender (obviously with the customer's permission) to be sure you are not letting him get over-extended. Feed liens<sup>3</sup> are another useful tool to protect yourself. They are analogous to a mechanics' lien that a contractor might place on your house. They should cause no offense to the customer when explained correctly. In fact if someone has a cow (sorry, I couldn't help myself) when you say you want to place a feed lien, alarm bells should go off in your head.

The horse market is a different kettle of fish altogether, since it is largely a recreational activity. As best I can tell, when a horse owner gets a few dollars, he or she immediately invests in an additional horse, or bets on one, or both. The more horses, the worse it gets. It can be just as time-consuming to sell ten tons to a horse operation as it is to sell five hundred tons to a dairy. That is why I am happy to sell our horse hay to a reliable honest dealer who specializes in this market, and is equipped (both mechanically and psychologically) to deal with the dozens of mom-and-pop feed stores and individual stables that constitute this market.

And, of course, getting paid means having a clear understanding of what the buyer is buying, at what price, and under what terms. This means a written, signed contract, not a conversation that two people understand differently. Handshake deals are not just unsanitary; they are great ways to lose friends.

***Fourth, get and share information.*** It has long annoyed me that a business as enormous as the California alfalfa industry has remarkably little market intelligence. A series of individual transactions of a variable commodity, sold with different delivery points and payment terms, is

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<sup>3</sup> California State Food and Agricultural Code 57401-57414

very different from looking at a screen with the number two corn contract on it. Both Jack Getz at USDA and Seth Hoyt, in his eponymous newsletter, do a great job of reporting. But The Wall Street Journal they are not. We are experimenting with a few neighboring growers in making weekly, anonymous postings of the hay sales we have made in the previous week. This has proved fairly valuable, and beats listening to the coffee-shop lies.

But the stackyard never lies. If hay is backing up on your ranch, you are above the market clearing price (unless you have earned yourself a reputation as a money-grubbing SOB, see above). If you have barns, then might be a good time to put hay away for winter sales. Pole barns generally provide a decent return on investment, and they help keep customers coming to you year round. Full stackyards tell the buyer that you are overstocked and desperate. Empty stackyards say your hay is desirable, priced right, and he'd better hurry up and put his mark on that stack or the other guy will snatch it first. If you don't have barns, it is a time to swallow hard and see just what that hay really will sell for, not what you wish it would sell for.

## **CONCLUSION**

There is no magic to selling hay. Put most of your effort into things you can control, like yield, cost, and quality. Stop whining about prices. Know and value your customers. Get paid. Get and share information.