

Marketing Your Crop

Increasing Competition Forces Organic Growers to Optimize Their Potential

by Mary-Howell R. Martens

Successful marketing of organic grain crops is a complex challenge that some farmers meet with finesse and profit, and others find bitterly frustrating. In efforts to help organic farmers better plan their strategies, several organic industry experts offer their opinions of common mistakes which, if avoided, could result in more effective marketing, improved relations between farmers and buyers, and ultimately, increased farm profit.

1. SELECT APPROPRIATE CROPS

Failing to grow crops that are well suited to local conditions is a critical mistake. It is essential that the grower determine which crops will grow best and produce the highest quality product on his or her farm. For example, food-grade soybeans will grow in many parts of the country, but only certain areas will produce soys with the right chemical composition for the high-quality food market. Buyers look at the quality of a product in a much different way than do farmers. While farmers may be very aware of yield, degree of weed control and other cultural characteristics, buyers will focus on protein content and composition, tofu yield, sugar content, color, size, shape, flavor, seed coat appearance and cleanliness. Most of these factors are highly influenced by the environment and soil fertility conditions. Poor soil fertility or improper environmental conditions can result in an essentially unmarketable product. Allen Moody, former grain buyer for Heartland Mill, now with CROPP/Organic Valley, advises: "Don't grow any crops that you can't achieve high enough quality with. It is no longer enough to simply produce organic crops and expect there will be a market ready and waiting. These days, it is essential to have a top-quality product that meets the quality requirements of the buyers."

How do you know whether you can produce a particular crop? Rather than commit a large acreage to what might not

be a success, it is better to start small. Try growing several acres first to determine if a quality product can be produced and to learn the cultural and equipment requirements specific to that crop. Keep in mind that you may not be able to market this small quantity of product, although it may be a valuable source of seed for coming years. The true purpose of this approach is not to grow the crop for sale but to learn how best to grow it and whether it will be a viable crop for your farm. John Myer of Ovid, New York, cautions that certified organic farmers must plan their whole farm rotations for several years in the future to ensure that they will continue to produce high-quality crops and to ensure a relatively consistent quantity from year to year. Buyers may be more interested if they can be confident that an equivalent supply of a particular crop will be available for multiple years. When using appropriate organic crop rotations, a large acreage of high-value row crops one year may result in a very small acreage of similar crops the following year, greatly reducing annual farm income and a consistent supply of a particular product.

Myer also stresses that farmers should consider the long-term profitability of a farm. Perhaps it is better to consider crop rotation less from the idea of producing the highest value products and more from the perspective of what will be best for the soil. If you approach crop rotation from this angle, the quality and yield of crops will improve. However, it is important to secure adequate markets for a range of adapted crops so crop rotations can be profitably maintained. You must balance market considerations with sustainable whole-farm cultural requirements.

2. MARKET THE CROP BEFORE YOU PLANT

Many novice growers find themselves in vulnerable, often costly, situations toward the end of a harvest as they scram-

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ble around among the dwindling numbers of buyers trying to secure deals that are by then less than optimal. Their mistake? They failed to adequately anticipate the transaction by beginning the sale early on. Marketing should start long before you put the seed in the ground. It is essential to first determine which crops you should grow and then start contacting buyers. Most buyers have specific needs, and often they even specify which varieties they wish to buy. It is a good idea not to put all your eggs in any one basket. Survey a number of buyers to determine demand, price, quality requirements and other considerations.

How does an organic farmer determine if a buyer is reputable, will treat them fairly and pay on time? Most buyers admit that this is difficult to do. David Springer of Pacific Soybean and Grain suggests talking to other organic farmers and find out whom they have worked with successfully. If there are regional associations of other organic grain farmers or organic certification chapters, attend the meetings, talk to the other members, ask questions. Often, established regional groups of farmers growing similar crops will be more attractive to buyers than individual, isolated farmers. Be very cautious of buyers who are known not to pay on time or who have canceled contracts on flimsy excuses.

If a buyer representative contacts a farmer, ask how long the company has been in business, what their commitment to the organic industry is, and what markets they serve. It is not inappropriate to contact the company's bank or other pro-

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processors they work with for more background information. Ask what the buyer will do if the weather is poor and results in a lower-quality product. Some buyers will reject the entire crop, while other buyers may have alternative markets and can divert lower-quality products into these, ensuring some profit to the farmer.

A farmer has three primary choices for marketing the product. First, they can deal directly with the buyer. This requires a significant amount of time, especially before a farmer has established long-term relationships with reputable buyers. Moody figures that initially, a farmer should count on spending 30 to 40 percent of their time contacting and developing relationships with several buyers. One way to locate potential buyers is to consult company lists, such as the Organic Trade Association's *Organic Pages* or the *National Organic Directory*, produced by the Community Alliance with Family. These lists will provide information on companies buying different grain products.

Some organic farmers choose to associate with a cooperative or group that markets organic products together.

Dr. Greg Stephens, an associate professor at Kansas State University, feels that this approach greatly benefits organic farmers by ensuring a larger, more consistent supply that would be more attractive to buyers. Additionally, the cooperative farming has a greater ability to negotiate in a non-adversarial manner with buyers. Another benefit from cooperative marketing is increased price stability. The Kansas Organic Producers Cooperative is a marketing association of organic grain farmers. In previous years, buyers called each of the members, and the individual farmer who sold at the lowest price was usually where price discovery was set. With the cooperative, individual farmers have hired a marketing coordinator who represents all the members, so markets are more stable.

They have developed a coordinated system of bills of lading, payment protections and centralized negotiations with buyers, which seems to work well for the members.

Stephens also sees that a regional network or federation of cooperatives would extend the co-op benefits even farther. Currently, buyers call individual cooperatives to find which one is willing to sell at the lowest prices, thus lowering prices for everyone in the industry. By forming a network of cooperatives, this would legally allow individual co-ops to participate as more informed sellers in a market. They could develop a marketing-agency-in-common relationship that would allow decentralized co-op sales while helping both farmers and buyers. It is important to recognize that when marketing through a cooperative, a portion of the potential profit a farmer would earn will be used for co-op operations. Before choosing this approach, a farmer must consider how much time they wish to spend promoting their own products and how much of their profit they are willing to forego for the convenience and protection of working in a group.

Other organic farmers appreciate selling to a broker, who then resells the products to processors or end-users. Springer sees this as an important part of the future of organic farming. With the consolidation of companies processing organic products, and with the increasing number of large, conventional companies like General Mills developing several organic food products, the personal relationship between buyer and farmer is changing. Larger companies usually are unwilling to deal with numerous individual organic farmers. Instead, they would rather work with one broker who can guarantee the consistent supply of a consistent quality product. A good broker should fill the role of a systems manager, working in partnership with both the farmers and the buyers to ensure smooth movement of a product. Springer feels strongly that the broker-farmer relationship must be based on cooperation and trust, and could be part of a larger package that would include helping the farmers select and obtain seed for specific varieties and provide pertinent cultural

and crop improvement information.

Buyers often prefer that farmers sign contracts ahead of planting the crop. Is contracting a crop important? Moody feels that contracts are an absolute necessity. A good contract should clearly outline the expectations of both parties, in terms of product quality, delivery date, quantity, price, whether trucking is included, and whether any specialized handling or storage is required. While a contract does not guarantee a sale, and certainly contracts can be broken, it does provide a reasonable level of security for both farmer and buyer. Some farmers feel more comfortable with contracting a portion of a crop while reserving the rest to sell on the open market. This is more risky but can sometimes net a greater profit. Because of the risk involved, waiting to sell on the open market may not be appropriate, depending on one's financial situation and personality. Moody feels one other reason to have a contract is to provide a documented history of transactions that can be used to analyze the overall farm productivity for a number of years.

An organic farmer should investigate whether their state has special laws that govern the buying and selling of grain. Some states such as New York require that any company purchasing products above a certain volume must be bonded with a state. Other states such as Iowa require a company to carry a valid grain dealer's license before they are permitted to buy or sell in the state. Both these approaches give the seller a limited degree of protection against nonpayment.

Most successful organic farmers and buyers agree that the key to marketing organic crops today is to develop trusting, long-term relationships between farmer and buyer. A buyer is more likely to honor contracts made with established clients. Mike Saeli, an organic farmer in Savannah, New York, stresses that this can work both ways. It is important that farmers honor their agreements. If they have agreed to sell to a buyer for a given price and then a new buyer comes along offering a higher price, the farmer should honor the previous agreement. "It is the steady customers who will see you through, year after year," Saeli said.

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3. HANDLE & STORE YOUR CROP WITH CARE

A considerable amount of potential profit is lost because of simple harvest and storage oversights. It is not enough to grow a vigorous, weed-free field of organic grain. Quality can be rapidly lost after harvest if the farmer is not prepared with proper equipment and facilities. Setting the combine correctly, drying grain to the proper moisture level, cleaning the grain to remove foreign material that may cause discoloration or rot, providing appropriate, clean, pest-free storage facilities, and careful attention to any handling procedures that may damage the product are all extremely important.

Red kidney beans are a good example. The skin of these beans is highly subject to abrasion, nicks and other damage. Essentially, any time kidney beans are handled, there can be drop in quality. Augers and other grain moving equipment can result in cracked and broken beans. Kidney beans should be cleaned immediately after harvest to remove dirt, weeds, stones and other foreign material. Kidney beans stored with dirt will gain several points of moisture and can become stained. Long-term storage of beans in this condition will often result in moldy, musty, or otherwise spoiled beans. Kidney beans stored too dry will crack and split, resulting in a low-grade product that cans poorly. Storage of kidney beans therefore becomes a delicate balancing act to keep moisture at the right level to avoid damage. While not all the damage is readily apparent to the farmer, once the beans are cleaned and canned, damaged beans are unattractive and unmarketable. It is therefore essential that farmers equip themselves with appropriate tools and knowledge well before harvest begins.

Products can be contaminated in storage by rodent and insect damage or excrement. It is important to plan pest con-

trol measures ahead. For example, mixing diatomaceous earth into wheat and other small grains as they go into storage will greatly limit the numbers of meal moths and other insects. Adding it to the entire bin in this way is much more effective than sprinkling it on top of the grain after infestation has been detected.

While many farmers store their products in a few large bins, Moody recommends that farmers should have a larger number of smaller bins to store different lots of the same product. When a farmer has this capability, it is possible that they can market the best-quality portion of their crop for a significantly higher price.

4. ANTICIPATE THE TRUE COST OF PRODUCTION

Many farmers underestimate the importance of having an accurate estimation of all farm costs. Strong bookkeeping skills are a must for any successful farming operation. Farmers should have some effective method to accurately assess the total cost of production of the crops on their farms. On a field basis, assessments should include:

1. All purchased inputs, including seed, organic fertilizers, lime, compost, and all other inputs.
2. Machinery and labor costs by using typical custom rates for as many of the operations as possible, including harvest. A list of regional custom rates could provide a good estimate.
3. Land costs, by figuring what rent for equivalent land would be, or if you own your land, use 10 percent of the value of the land.

Now, divide by the yield of the field. Did you make a profit on the crop in this field? Be aware that this may account for only part of the total cost of production.

An organic farmer often faces another cost that can be devastating but is easily overlooked. Unlike conventional farmers, who can take their grain to the elevator shortly after harvest and are done with it, organic farmers may be required

to wait six to eight months before the buyer calls for delivery. Often, payment comes only after delivery. The farmer must be sure that there will be adequate cash flow to cover those months before payment. Short-term operating loans may

be necessary. If so, this should be considered part of the cost of production. Additionally, the longer the crop is stored, the greater the chance for additional storage loss and clean-out, resulting in a lower payment than if the crop were delivered upon harvest. Again, this loss must be accurately accounted for in the cost of production. You might also want to figure in marketing costs for each crop, which include storage costs — remember to add additional storage costs the longer you store a crop until sale, including any increased storage loss and the interest on the money you could have made if you had sold at harvest -- and trucking and delivery to the buyer, if this is required. The cost of trucking can sometimes eat up much of the profit.

Do you make more money selling to Buyer A, who offers \$17 a bushel for soybeans right out of the field, with payment in 10 days, or to Buyer B, who offers \$18 a bushel after 8 months of storage, and you pay the trucking? If you figure \$0.02 a bushel per month storage cost, 10 percent annual interest, trucking at \$10 per ton, and a nominal shrink, your net would be \$1 per bushel less by selling to Buyer B.

Until a farmer can accurately calculate the true cost of production, they are unable to estimate whether they are making a reasonable profit at a given price. Seasoned organic farmers agree that recent high prices for many organic commodities, especially soybeans, have made it difficult to evaluate what is a reasonable price to expect. Some farmers have an over-inflated view of what their products are worth. Saeli feels strongly that farmers should not be greedy for the highest prices. If the true cost of production shows that a reasonable and acceptable profit is achieved at a certain price, perhaps that is better than constantly waiting for price to rise further. Working harmoniously with buyers and other organic farmers to arrive at sustainable long-term pricing that ensures adequate profit-

ability is far more important than taking what Moody terms the “short-term profitability hit.” Moody feels that farmer response to recent soybean price fluctuations may indeed serve to shake out some of the organic “wannabes” from

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the truly committed organic farmers, eventually resulting in a stronger organic industry.

5. MANAGE SUPPLY TO MEET BUYER NEEDS

The ability of many farmers to maximize their sales is determined by the limited scale of their production. The fact is, most buyers will be more interested in a farmer who has the capacity to produce enough grain to fill one semi-load. For this reason, a farm producing 10 acres of soybeans may be much less attractive than one producing 100 acres. Some farmers attempt to solve this problem by assembling several nearby farms that together can fill one truck with a commodity. This can sometimes work, but if one farmer delivers low-quality product, the whole load may be rejected.

It is also important to consider the facility requirements for handling tractor-trailers. This would include a wide, solid driveway, good access to storage bins even when the driveway is muddy, adequate augers, etc. If the truck is loading in the field, it is important to be able to provide firm, wide access that is not in the cultivated portion of the field and that is safely off main highways.

6. COLLECT ACCURATE SAMPLES

Sending a poorly representative sample of your crop to a prospective buyer can end up costing you more than you might expect. Often, at the buyer's request, a harvest sample is collected before the purchaser takes delivery. What is a representative sample? Ideally, the sample should include a mixture of all the variation in quality in the lot of grain. Some diligent farmers draw a sample to holding a 5-gallon pail briefly under the unloading stream as grain is being put into a bin, every few minutes adding a small sample to the bucket. Then the bucket of grain is thoroughly mixed and a portion of that sent to the buyer. An

experienced buyer can tell the difference between a "bin run" sample or one that has been "improved" by selective cleaning. They may even reject a lot if they are suspicious they have not seen a representative sample.

When sending samples to buyers, it is important to pack them carefully. As long as the grain moisture is low enough, samples should be packed in plastic bags and then put into sturdy cardboard boxes. If several samples are shipped in the same box, it is important to pack them securely enough so that the bags do not open in transit, resulting in commingling. Each sample should bear a label that clearly identifies the farmer's name, address, telephone number, product variety, quantity of the total lot, and the organic certification. Regardless of the personal relationship a farmer may have with the buyer, it is important to recognize the importance of preparing and labeling a sample accurately and sending it in a timely manner.

7. USE ONLY CLEAN TRANSPORTATION

Growers who fail to ensure clean transportation may pay for this lapse in several ways, not the least of which may be the loss of organic certification for a haul. For instance, if a truck had previously hauled commercial grain, fertilizer, or other unacceptable products before arriving at the farm, a small quantity left in the truck may be enough to contaminate the entire load, resulting in rejection. Many of the organic certifiers provide "clean truck affidavit" forms to verify that the truck was cleaned before loading. It is important to emphasize that the farmer should be personally responsible for visually assessing the cleanliness of the truck — don't take the truck driver's word for it. Also, be sure that the unloading door and trap is cleaned of all previous products. When the truck makes the delivery to the buyer, often a sample will be removed through the unloading door. If the first material out is debris or unacceptable materials, the entire load may be rejected.

8. ALWAYS USE A BILL OF LADING

For the poorly prepared farmer, there

is always the specter of the shipment that gets lost along the way because of poor documentation. It is essential to remember that once the grain leaves your farm, it is out of your control. Jon Solomon of Eden Foods says that each year, some farmers find that they have "lost" a load of organic product. Often, that is because the truck arrived at the buyer's facility without a bill of lading identifying the product source, and the product gets credited to a different farmer. When there is no documentation clearly identifying the source, weight and product, it may be difficult for the farmer to prove they shipped anything.

Invest in an inexpensive package of generic bills of lading. Make sure that every truck leaving your farm carries a completed bill of lading. Save one of the carbon copies for your records. If you are uncomfortable with the truck driver, the truck or the situation, don't ship your product. Don't become this year's example of the farmer who lost a load of beans.

9. CAPITALIZE ON VALUE-ADDED OPPORTUNITIES

Many farmers fail to appreciate opportunities to enhance the value of their products, thereby losing potential, sometimes critical, income. Fruit and vegetable farmers understand the secret of increased profitability from adding value to a product by some type of on-farm processing, but many grain farmers fail to see this as an option. There are several ways to add value to grain crops. At our grain farm in Penn Yan, New York, Klaas and I recognized a value-added opportunity with the growth of organic dairy farming in New York state. Most of the dairy farmers did not have sufficient land to produce all their feed needs and therefore were seeking an organic mill to produce organic feed.

At the same time, organic soybean farmers were producing a large quantity of splits, a clean-out byproduct. By investing in a soybean roaster, a series of grain bins, and by cooperating with Norm Wigfield, another farmer who has grinding and mixing equipment and was willing to deliver to the dairies, we have been able to provide a market not only for much of our own grain, but also for a large amount of grain from other New

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York organic farms. By working together in this way, the operation carries little of the typical overhead expenses that a traditional feed mill would. Additionally, the feed business has provided a market for corn or other grains that don't meet human food grade.

Because of our crop rotations, we must grow a certain amount of corn and small grains each year. Unfortunately, there has not been a strong organic market for many of these crops. These products work well in dairy rations when mixed with roasted soybeans, and we are seeing demand for organic dairy feed increase dramatically. Providing mixed feed for the rapidly multiplying numbers of pastured poultry producers in New York has provided another outlet for organic and transitional grains this year. Klaas' prior experience with dairy, and my own experience with pastured poultry, helps us better meet our customers' needs.

Another value-added opportunity is grain- or seed-cleaning facilities. Many buyers try to locate grain cleaning close to the point of production so they do not have to transport unclean grain. One enterprising farmer can provide grain-cleaning services to a group of area farmers and thereby also make themselves more valuable to buyers. A seed-cleaning facility can provide a similar service to a group of farmers. It is possible to obtain a higher price for transitional grains if they are sold as cleaned seed.

10. OBSERVE ORGANIC CERTIFICATION STANDARDS

A poor understanding of the industry may cost the uninitiated grower his precious investment of time and money. Simply put, you cannot sell organic products if you are not certified organic. Imagine being told in September that your inspection report indicated you

didn't meet standards and your certification for the year has been denied. This has happened. All certification agencies have specific standards and expectations, and an organic farmer is required to comply. It is important to read and understand the standards that directly relate to operations on your farm. All certification agencies require detailed record-keeping to provide a clear audit trail from point of planting to point of sale. It is important to carefully comply with requirements regarding fertility amendments, other inputs, crop rotation, buffer strip management and separation from neighboring GMO crops that may produce contaminating pollen. Failure to provide buyers with proper organic documentation may result in delayed or withheld payment. After all, they have their audit trail to maintain also. Paying careful attention to organic certification standards is necessary to ensure organic integrity and happy buyers.

IN SUMMARY

The organic grain market recently has been in period of great volatility. Within the past three years, organic farmers have seen a rapid increase in the number of brokers and processors. At the same time, most organic commodity prices have fluctuated wildly, confusing many farmers. Springer feels that we are now entering a period of greater stability. This

is due partly to the phenomenal growth of the American organic market as more mainstream consumers recognize the health and flavor benefits of organic food. This market expansion has created the need for more organic production. The character of the organic market may be changing dramatically, as large conventional food companies develop new organic lines, and smaller organic processors and distributors are being

rapidly consolidated into larger companies. Organic farmers may have to change their marketing techniques to deal with these tremendous changes. Farmers benefitting from specific niche markets may find this approach more difficult as they face stiff competition from larger and better capitalized operations. Large organic businesses operate much like the large conventional food businesses, and in many cases, they are new divisions of the same companies. Organic farmers must be aware of changes in the market and in the organic industry if they are to be adequately prepared.

Springer feels that if American organic farmers work together to market their products and strive to produce high-quality products, this should benefit them most. American farmers are facing increasingly stiff competition from organic production in other areas, particularly South America and China, but at this point, American product quality is generally far higher. Some buyers will choose to purchase less expensive, imported products, but many will see value in obtaining higher-quality American products. Moody agrees, and suggests that high product quality and strong, long-term relationships between farmers and buyers will be the keys to surviving in today's changing organic market.

For information on companies buying different grain products, the Organic Trade Association's Organic Pages can be found on the Internet at <www.ota.com>, and the National Organic Directory can be obtained ordered at 1-800-852-3832.

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