

Agricultural Marketing Guide >>



Forage Seed Marketing

Introduction

The Canadian forage seed market is small in comparison to markets for other farm commodities. It is a less structured market. Typically, prices are established on a "bid" and "offer" system, with sellers and buyers checking offers and bids by other growers or buyers. Although market and price information can be lacking, it is available. Canadian companies will provide prices for most forage seed species, however, quotes can vary depending on the company, time of year, and market conditions (supply/demand).

2011 Canadian Forage Seed Acres		
Location	Farms	Acres
Canada	1,833	326,526
Alberta	609	131,933
Saskatchewan	356	73,361
Manitoba	368	67,973
British Columbia	178	42,110
Ontario	214	7,536
Quebec	85	2,880
Prince Edward Island	5	466
New Brunswick	7	108
Nova Scotia	3	105
Newfoundland and Labrador	8	54

2011 Census of Agriculture

The forage seed trade is privy to market information. Most Canadian companies deal with companies and brokers from the US and eastern Canada. Even though most involved in the forage seed trade are competitors, regular contact through daily dealings, conferences and brokers provides the trade with better information than is available to most growers. Growers should find out which processors buy what product as not all buyers deal with all forage seed species. As some species lack a market at certain times of the year, be prepared to leave samples with all buyers. Make them aware of what you have and how much.

Price fluctuations occur with all forage seed crops. [Historical forage seed prices](#) for commonly grown Canadian species.

Marketing Alternatives

Marketing alternatives for forage seeds are limited to four basic alternatives. Each alternative has certain advantages and limitations.

- **Direct seed trade sales:** Growers can sell their rough or pre-cleaned seed directly to the forage seed trade at the prices offered for the day.
- **Contracts:** Growers can contract their seed to a company or processor. Two types of contracts are generally available to forage seed growers. They are 1) forward priced contracts and 2) production contracts.
- **Brokered sales:** Growers can clean the seed and retain a broker to sell it on their behalf.
- **Farm gate sales:** growers can clean their own seed and sell at their "farm gate" or through a distributor

Direct Seed Trade Sales

A direct seed trade sale occurs when the grower sells their seed, usually uncleaned (rough), to a forage seed firm. The firm's buyer will conduct dockage and germination tests to estimate the percentage germination, and amount and type of dockage present. The price per pound received by the grower is based on net cleaned seed. However, the net price may also be adjusted for other reasons. Net price is usually discounted if the seed has poor quality factors, such as germination or foreign material (weed seeds/dirt tag, off-types) that cannot be cleaned out. Seed of this quality may be restricted in its use in certain markets.



Peace River seed Coop - Rycroft, AB

Once a seed firm takes ownership of the seed, the firm cleans it and finds a market for it. Many companies now only buy when they have a sale commitment. The company is not subject to risk if it buys seed committed to a sale. Unsold/committed seed is subject to price declines. There is shipping and currency risk as well. Trade firms must stand behind the quality of a shipment. End users will replace or discount a shipment of seed if it does not meet the standards of the purchaser or "make grade" upon arrival. Failure to replace or discount a shipment would severely affect a firm's future business. Many forage seed companies no longer speculate on prices and market conditions. Rather, they look at the bottom line to see if buying at price x, and selling at price y, will make a profit after processing, transporting, and assuming risks.

Advantages of direct seed trade:

- The grower is not subject to the risks of price decline or storage loss.
- The grower normally receives payment immediately upon delivery of the seed if he wishes. (varies among companies).
- The grower is not required to assure seed quality to the end user.

Limitations of direct seed trade:

- The grower may not be able to take advantage of short-term price premiums for seed destined for certain markets.
- Under identical market conditions a grower may receive a few cents per pound less for seed through a trade sale than if a brokered sale were used.

Contracts

Two types of contracts are available to seed growers: forward priced contracts and production contracts.

Forward priced contracts

A forward priced contract is an agreement by a grower to deliver a specified amount of clean seed to a seed company by a certain date in the future. The seed company, in return, agrees to pay a specified price, usually on the day of delivery.

Usually the contract specifies a certain product quality or grade that is eligible for the guaranteed price. If the delivered product is of lower quality than specified, the final price is discounted. Forward priced contracts may specify delivery as soon as several weeks or as far as 2 years into the future, depending on the company's and the grower's commitment. In many cases, new crop production can take up to 3 years before seed is harvested.

Most companies will allow pre-pricing of only part of the expected crop before harvest. After harvest, however, a producer may contract or "price" his entire crop if contracts are still available.

Advantages of a forward priced contract:

- Eliminates the risk of future price declines.
- Eliminates the risk of limited after-harvest demand.
- If the contract involves summer or fall delivery, storage space is opened up for other crops.
- Allows the farm manager to plan crop rotations well into the future.

Limitations of a forward priced contract:

- The amount of product specified in the contract must be delivered.
- Limits the choice of company to which the seed may be delivered.
- Contracts are difficult and costly to cancel. They do not allow producers to take advantage of price increases.
- They are not regularly available from all seed companies or at all times of the year.

Production contracts

With a production contract, a producer signs an agreement with a seed company to grow a specific forage seed variety. The producer agrees to deliver all of the seed produced back to the company. The seed company guarantees to accept delivery. The forage seed crop grown under contract is usually only for certified seed production or multiplication, not for common seed. Therefore, the crop is expected to meet certain standards and criteria.

The type of pricing structure in a production contract generally involves a minimum price, a fixed price, or a price that is related to the price of a public variety. A minimum price structure would guarantee the grower a specified price on delivery. Additional payments could be made after cleaning and grading, depending on what is happening in the markets. A fixed price will guarantee the grower a specified price and the price will remain unchanged through the life of the contract. Some contracts may price in relation to the price of a public forage variety of the same crop at a specific point in time. In all cases, the type of price structure is agreed upon before the contract is signed.



Contracted Hard Fescue Field - Guy, AB

One of the keys to a successful production contract is to ensure that both parties fully understand the details of the contract. Contract conditions will vary from company to company, so it is important to compare them on an equal basis.

Some factors to consider:

- Who supplies the seed?
- Will the company accept seed that does not make grade?
- Is there a discount schedule in place?
- Who pays for cleaning and bagging?
- How long is the contract?
- When will payment occur?
- Who applies for crop inspection and pays for this service?
- Is there a specified delivery date?, or will the grower have to store seed for the company?

Some companies may supply the seed at no charge, while others do not. Some companies will only accept seed that meets certain quality standards. One company may offer a higher price for the same crop but the producer may have to pay for cleaning and bagging. There may also be differences in the length of the contracts and when the payments to the grower are made. The responsibility of who makes an application for crop inspection and who pays for the service must also be considered.

One of the biggest issues in a contract is to understand the quality requirements of the seed in terms of weed seeds, other crop types, and germination. Much of the forage seed grown under contract is being sold into markets that have high quality standards. It is important to understand what factors could prevent the seed from meeting the contract specification. Find out what

happens if the product does not meet grade. Is there a discount schedule? If the seed does not meet the specific standards, will the company still purchase the product? Accredited labs can be found to properly do germination and purity tests on forage seed samples.

When dealing with a processor, ensure that you are working with a company that has a reliable reputation. Some companies will provide a field person to help make some of the production management decisions while growing the crop. The company should also provide information on how the variety to be grown has performed in the area. Producers should read each contract carefully and be certain they understand what they are signing.

Advantages of a production contract:

- Guaranteed sale of some or all seed production that meets contract quality standards.
- Producers will know the economic returns of the crop (based upon expected yield results) since the price is generally agreed upon in the contract. Having an established price protects the producer from downwards movement in prices for that specific crop.
- If the contract involves summer or fall delivery, storage space is opened up for other crops.

Limitations of a production contract:

- Seed can only be delivered to the contracting company.
- Contract conditions vary from company to company.
- Seed must meet quality standards outlined in the contract.

Brokered Sales

Forage seed brokers arrange seed sales by putting buyers and sellers together and helping negotiate a price. The broker does not take ownership of the seed. In a brokered sale, the grower retains ownership of the seed until the purchaser receives it. The broker merely acts as an intermediary between the grower and an interested buyer.

Brokers need to be constantly aware of what seed is for sale and where it is located. Brokers arrange sales both within Canada and for export markets. A large part of most brokers' sales is for export. They are also often called upon to arrange sales on short notice.

For their services brokers charge a fee, usually a small percentage of the value of the sale. The percentage often varies depending on the destination of the seed, be it national or international.

Brokers also make it a practice to know, or have quick access to, the export paper work and seed cleanliness standards of purchasing countries or states. In the United States, each state often has different lists of prohibited weeds. Seed going to neighboring states may have to meet different standards.

Because brokers do not take ownership of the product, they are not legally responsible for assuring that growers are paid. Some guarantee grower payment while others do not. They are very careful about whom they arrange sales with. Brokers attempt to deal only with reputable buyers. Some brokers arrange freight, customs clearances, and sanitary or purity certificates if required. If the broker does not make these arrangements, then the seller must make them. In all cases, the grower must cover the costs of freight, customs, and special certificates. Several

seed trade firms will act as brokers as part of their services to growers.

Advantages of brokered sales:

- Fees for brokerage services are based on a small percentage of the sale price of the seed, giving growers a higher net return for their seed.
- Growers may be able to take advantage of short-term price premiums for seed destined for certain markets.
- Brokers can deal with large lots, allowing producers to move large quantities of seed in one transaction.

Limitations of brokered sales:

- The grower is subject to the risk of price decline prior to sale of the seed.
- Under some market conditions, a grower may hold seed for a considerable time until it is sold.
- The grower may not receive payment for the seed for 45 to 90 days after it is shipped.
- The grower assumes all risk of the seed not "making grade" on arrival at the buyer's facility.
- The grower may bear the risk of nonpayment for the seed.

Farm Gate Sales

Growers with access to facilities capable of cleaning grass and legume seed, and contract to have the cleaning and bagging done, could sell their own seed. In this case, the grower is responsible for all tests and cleaning and bagging costs. He will also be responsible for marketing expenses associated with his seed.

Advantages of farm gate sales:

- The grower can ask retail prices for his product, which can be 50-100% higher than wholesale prices (direct seed trade).
- Grower has the control over setting lower prices for his product to compete in the marketplace.

Limitations of brokered sales:

- If seed is sold through a distributor, one must be found.
- Must have a product that there is local demand for.
- Grower is responsible for advertising and marketing.
- Seed lots sold may be small in size (a few bags at a time).
- Inconvenience of having many small sales vs. a few large bulk sales.

Marketing Hints

Merchandising seed

A producer's best strategy is to contact as many seed buyers or brokers as possible to let them know he has forage seed to sell. Tell buyers what seed is available, how much, and approximately what quality it is. Take samples to each perspective buyer for analysis. Producers

should send each company a good, representative sample of their seed and ask them to estimate grade and dockage.



Certified Seed Lot

Both the grower and the firm should know what weeds are present, and if the seed can be cleaned to qualify for certain markets. Seed companies keep lists of prospective suppliers they can phone when sales opportunities arise. Producers should be warned that some companies do not buy clean seed. These processors want to keep their cleaning facilities operating as much as possible.

Many American states do not accept seed containing wild oats, stinkweed or canola. Knowing what each company believes is dockage is also helpful. Companies will offer similar prices but the ones that really want seed may offer a lower dockage just to get it.

Comparing offering prices

Most of the trade's quoted offering prices for seed are based on net cleaned seed. The prices quoted on any given day by different companies are very similar, to accurately compare offers, each company's perks should be considered: dockage estimates, on-farm pickup, cleaning rates, payment schedule, etc. A firm that really wants to buy seed will offer the same price as its competitors, but may guarantee a lower dockage or some other "perk".

A Note of Caution

Most forage seed companies are long-established businesses and should be sound. However, forage seed firms do not need to be licensed or bonded or prove their solvency in the way that grain companies must. Therefore, producers are encouraged to be careful when they are dealing with companies with which they are not familiar!

Summary

General principles of supply and demand also work in the forage seed marketplace. Be aware that due to the nature of the business, demand is more seasonal. To alleviate potential

marketing problems, the marketing of turf, grass and legume seed in Canada has four marketing options available to growers. These options drive Canada's forage seed industry year after year, and have served the industry, the growers, and the end-user well.

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