

# Fence Lines

Fall 2012

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Cover Photo: A fall morning in Capitol Reef National Park.  
This creek runs by a cattle trail in the area of the old Sleeping  
Rainbow Ranch.

- 3 | President's Message
- 4 | \$1.8 Million Mid-Year Patronage Paid  
Dusty Roche Wins \$200 for Completing Customer Survey  
Western AgCredit Welcomes Kelsey Dutton
- 5 | Customer Appreciation Barbecues-Thanks for Attending
- 6 | Life Insurance. Are You Covered?  
Life insurance offered through Western AgCredit provides the  
comfort of knowing that in case of the death of a loved one, your  
family's financial future is secure.
- 8 | Locally Produced Hay Sells Globally  
Bailey Farms International compresses and sells hay from the  
Intermountain West around the globe.
- 11 | Name the Parts of the Beef Cow Winners
- 12 | Strategic Margin Management
- 14 | Western AgCredit Gives Back
- 15 | Laughing Pen

*FenceLines is published for the reading enjoyment of customers and friends of Western AgCredit. Efforts are made to ensure the accuracy and completeness of information printed. However, the Association assumes no liability for inadvertent or unintended errors or inaccuracies. Servicing the Intermountain West since 1917, customer service is our commitment.*

# Dear Western AgCredit Stockholders & Friends,



We hope this issue of FenceLines arrives with everyone dealing with life's challenges successfully. In spite of our daily challenges, we are all fortunate to be Americans. My wife and I recently had the good fortune to spend a couple of weeks in Italy. We enjoyed the opportunity to see the historical points of interest and artwork within Italy. The trip also made me appreciate the fact that America's best days are ahead of us, not 1500 years in the past as is the case in Italy. Granted, I may be a little biased on the relative position of the United States vs. Europe.

Western AgCredit (WAC) continues to achieve tremendous operating success. This success is the direct result and reflection of our stockholders. In spite of high operating costs and persistent drought, the vast majority of our stockholders are doing well financially. In an attempt to partially offset some of the impact of the drought, the Board of Directors of Western AgCredit approved paying an advance on the 2012 patronage payment. The Board's action resulted in returning \$1.8 million to our stockholders the end of September. Based on initial comments we have heard, our stockholders were very appreciative of the early payment. The Association anticipates paying an additional 40 basis point patronage by mid-February 2013, which would result in a total 75 basis point payment if the September and February patronage payments are combined. Western AgCredit is the only major lender in our service area that remits patronage payments to its customers. Those customers who didn't receive patronage payments still enjoy the lowest effective interest rates in marketplace.

On another note, Western AgCredit and several of its neighboring Farm Credit Associations combined

their resources to file an amicus brief in a lawsuit filed by the Western Watershed Project (WWP) against Bureau of Land Management (BLM). The WWP litigation is attempting to remove livestock grazing on public lands. Our amicus brief was in support of our livestock industries fighting to retain grazing access on the public lands. The District Court in Boise, Idaho recently ruled that even if the BLM may have made mistakes while approving some livestock grazing allotments, the impacted ranchers should not be forced to remove their livestock until the litigation is resolved in one manner or another. The ability for ranchers to stay on public lands while the litigation is being resolved was a huge win for the livestock industry and everyone who benefits from a viable livestock industry. Here again, Western AgCredit is the only major lender in our service area who is using its resources to help protect the interest of production agriculture.

I'd like to close this letter by thanking our stockholders for their business and continued trust. In spite of the drought and fiscal challenges facing the agricultural industry, WAC continues to grow and strengthen financially. We look forward to concluding 2012 and the opportunities of 2013. Agriculture's future is truly bright.

**Together in Agriculture,**

**Richard Weathered  
President**

# \$1.8 Million Mid-Year Patronage Payment

On September 19, 2012 Western AgCredit's Board of Directors approved a mid-year patronage payment totaling approximately \$1.8 million to assist customers managing through the drought and experiencing other challenges in agriculture. "Our goal is to provide some tangible help to producers in

the area who have been negatively impacted by the drought, lower commodity prices, or other adversity," said LaMar Barrington, chief credit officer.

As a cooperative based lending institution, Western AgCredit returns a portion of profits to customers in the form of annual

patronage payments. Traditionally, patronage payments have been paid in February. Instead of waiting to pay the entire patronage payment in February, a portion was paid in October with the balance paid in February in order to provide timely assistance to those affected by the drought.

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## Dusty Roche Wins \$200 for Completing Customer Survey

Western AgCredit is pleased to announce that Dusty Roche is the first winner of the \$200 American Express gift card, which he won by completing the survey now being emailed to customers.

To be eligible to win this quarterly drawing, you must complete the survey that you will receive via email after renewing a current loan or getting a new loan.

**If you choose to include your name on the survey, you'll be**

**eligible for our quarterly drawing for a \$200 gift card.**

We value your business and appreciate feedback. We want to ensure that we are meeting your needs and exceeding your expectations. Receiving the feedback shortly after you completed your transaction allows us to make adjustments to business practices in a timely manner.

In order to use this resource effectively, we need to get as many

surveys back as possible. Please watch your inbox after doing business with us and take a few minutes to follow the link in the email and complete the survey. The survey is brief and should not take longer than 10 minutes to complete.

If you have feedback you prefer not to provide through this medium, please feel free to call or write us with comments or suggestions.

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## Western AgCredit Welcomes Kelsey Dutton

Western AgCredit is pleased to welcome Kelsey Dutton as a loan officer in the Logan Branch. New to Utah, Kelsey is looking forward to learning more about Utah agriculture and meeting the farmers and ranchers in the Western AgCredit lending territory.

"I am so excited to be with Western AgCredit, and I look forward to meeting and getting to know all of the staff and customers with which I come in contact," said Kelsey.

Kelsey recently graduated from Oklahoma State University in agribusiness. She also has a degree in business administration with an emphasis in management from McPherson College in McPherson, KS. During college, Kelsey worked as an administrative assistant for a chemical and fertilizer company.

Kelsey grew up in Limon, CO on a small farm and ranch. Growing up, she was involved in 4-H and FFA. In her free time, she enjoys softball, snowboarding and spending time with her dog, Tobie.



# Thank You! for coming to the

# 2012 Customer Appreciation Barbecues

Every year, we load up the barbecue truck and hit the road to cook and serve a steak dinner in your area. This year, we grilled and served over 2500 steaks using over 1200 pounds of charcoal. We hope you enjoyed the steak and the company.

We enjoyed the opportunity to spend the evening with you. We appreciate your business and look forward to serving you again in the years to come. Below are some pictures taken during this year's barbecue season.



# Life Insurance. Are You Covered?

Life insurance offered through Western AgCredit provides the comfort of knowing that in case of the death of a loved one, your family's financial future is secure.

Have you ever found yourself talking about life's uncertainties while driving to the auction to drop those cull cows off? Maybe you have thought about it while running across the hay field in the swather? Whatever the case might be, I believe we have all contemplated the importance of life.

Life is precious, and it is important that we make plans on how to manage through the financial impact the loss of a loved one often brings. The best tool to prepare for this unfortunate event is life insurance. You now may be wondering, "Where do I start?" or "Is the plan I have sufficient?" It's important to begin with assessing your needs. Needs differ for every person, so let me give you a guideline to follow:

## 1. Mortgage Protection

What are your monthly payments for your farm and/or home? Would you like to pay off all mortgage debt? Again, this decision is up to you. Some may prefer to eliminate all debts and others may choose to carry on and keep making the regular payments.

## 2. Income Replacement

Now you're probably wondering, why would I need to replace income if I already have a farm that pays the bills? If the loss that you experience is that of the primary operator (the person that knows the ins-and-outs of the operation) you are going to need to hire a replacement. Having money

		ELIGIBILITY AGE	TERMINATION	AVAILABLE LIFE INSURANCE AMOUNTS	POLICY RIDERS	RATE FACTORS	PAYMENT OPTIONS	DEATH BENEFIT OPTIONS
GROUP INSURANCE PRODUCTS		UNDER AGE 70	AGE 75	<b>AGE</b> To 55 \$1,000,000 56-60 \$250,000 61-65 \$150,000 66-69 \$50,000 70-74 \$10,000	NONE	<ul style="list-style-type: none"> <li>• AGE</li> <li>• TOBACCO/NON-TOBACCO</li> <li>• MALE/FEMALE</li> <li>• VOLUME DISCOUNTS OVER \$100,000</li> <li>• LIFE ONLY OR LIFE AND DISABILITY</li> </ul>	<b>LONG TERM:</b> MONTHLY (ELECTRONIC DEDUCTION FROM CHECKING), QUARTERLY, SEMIANNUAL, AND ANNUAL BILLED DIRECTLY BY MINNESOTA LIFE  <b>SHORT TERM:</b> ADMINISTERED BY AG-RELATED SERVICES WITH MONTHLY EXPIRATION AND LIST BILL	<b>SHORT TERM:</b> • LEVEL  <b>LONG TERM:</b> • DECREASING ANNUALLY WITH LOAN BALANCE
						<ul style="list-style-type: none"> <li>• \$75,000 MINIMUM</li> <li>• INDIVIDUAL CONSIDERATION FOR AMOUNTS OVER \$10,000,000</li> <li>• CAN BE OFFERED FOR AMOUNTS GREATER THAN TOTAL FARM CREDIT DEBT (CONTACT YOUR MINNESOTA LIFE REPRESENTATIVE.)</li> </ul>	NONE	<ul style="list-style-type: none"> <li>• AGE</li> <li>• TOBACCO/NON-TOBACCO</li> <li>• MALE/FEMALE</li> <li>• PREFERRED, STANDARD, AND SUBSTANDARD</li> <li>• VOLUME DISCOUNTS AT \$100,000, \$250,000, \$500,000 AND \$1,000,000</li> <li>• TERM OPTIONS (1,5,10 YR)</li> </ul>
INDIVIDUAL INSURANCE PRODUCTS	PREMIER LEVEL TERM	UNDER AGE 71	NONE	<ul style="list-style-type: none"> <li>• AGE 55 AND UNDER: \$100,000 MINIMUM</li> <li>• AGE 55+ \$250,000 MINIMUM</li> <li>• INDIVIDUAL CONSIDERATION FOR AMOUNTS OVER \$10,000,000</li> <li>• CAN BE OFFERED FOR AMOUNTS GREATER THAN TOTAL FARM CREDIT DEBT (CONTACT YOUR MINNESOTA LIFE REPRESENTATIVE.)</li> </ul>	<b>BUILT-IN-NO COST</b> • ACCELERATED DEATH BENEFIT  <b>OPTIONAL-ADDITIONAL COST</b> • EXTENDED CONVERSION AGREEMENT • WAIVER OF PREMIUM • CHILDREN'S TERM AGREEMENT	<ul style="list-style-type: none"> <li>• AGE</li> <li>• TOBACCO/NON-TOBACCO</li> <li>• MALE/FEMALE</li> <li>• PREFERRED SELECT (NON-TOBACCO), PREFERRED STANDARD, NON-TOBACCO PLUS, AND SUBSTANDARD</li> <li>• STANDARD RATES ONLY FOR AMOUNTS UNDER \$250,000</li> <li>• VOLUME DISCOUNTS AT \$250,000 AND \$1,000,000</li> <li>• POLICY FEES APPLY (\$50 FOR AMOUNTS UNDER \$250,000 OR \$95 FOR AMOUNTS OVER \$250,000)</li> </ul>	MONTHLY (ELECTRONIC DEDUCTION FROM CHECKING), QUARTERLY, SEMIANNUAL, AND ANNUAL WITH DIRECT BILL FROM MINNESOTA LIFE	LEVEL
	ADVANTAGE ELITE SELECT HEALTH	UNDER \$250,000 16-55: 5, 10, 15 OR 20 YR TERM 16-45: 30 YR TERM  \$250,000+ 16-80: 5 OR 10 YR TERM 16-70: 15 YR TERM 16-65: 20 YR TERM 16-50: 30 YR TERM	AGE 95	<ul style="list-style-type: none"> <li>• AGE 55 AND UNDER: \$100,000 MINIMUM</li> <li>• AGE 55+ \$250,000 MINIMUM</li> <li>• INDIVIDUAL CONSIDERATION FOR AMOUNTS OVER \$10,000,000</li> <li>• CAN BE OFFERED FOR AMOUNTS GREATER THAN TOTAL FARM CREDIT DEBT (CONTACT YOUR MINNESOTA LIFE REPRESENTATIVE.)</li> </ul>	<b>BUILT-IN-NO COST</b> • ACCELERATED DEATH BENEFIT  <b>OPTIONAL-ADDITIONAL COST</b> • EXTENDED CONVERSION AGREEMENT • WAIVER OF PREMIUM • CHILDREN'S TERM AGREEMENT	<ul style="list-style-type: none"> <li>• AGE</li> <li>• TOBACCO/NON-TOBACCO</li> <li>• MALE/FEMALE</li> <li>• PREFERRED SELECT (NON-TOBACCO), PREFERRED STANDARD, NON-TOBACCO PLUS, AND SUBSTANDARD</li> <li>• STANDARD RATES ONLY FOR AMOUNTS UNDER \$250,000</li> <li>• VOLUME DISCOUNTS AT \$250,000 AND \$1,000,000</li> <li>• POLICY FEES APPLY (\$50 FOR AMOUNTS UNDER \$250,000 OR \$95 FOR AMOUNTS OVER \$250,000)</li> </ul>	MONTHLY (ELECTRONIC DEDUCTION FROM CHECKING), QUARTERLY, SEMIANNUAL, AND ANNUAL WITH DIRECT BILL FROM MINNESOTA LIFE	LEVEL

to hire help on the spur of the moment, as you work to get your feet on the ground, is important. If you have the funds available, you are able to hire the right person as quickly as possible, minimizing the impact to your farm or ranch. Income replacement also provides peace of mind to the surviving spouse. Insurance can be used to pay off debts and allow the surviving spouse to retain the farm assets to generate income while maintaining the family's standard of living.

### 3. College Funds

Do you have kids? Do you want to help them with their schooling? When looking at your needs, you can decide what, if any, you would like to have for children to attend school. With the cost of schooling rapidly increasing, it's important to decide what you want your contributions to be to your children's educations and future success.

### 4. Final Expenses

Funeral costs, medical bills and burial costs all add up. Having insurance for these expenses will allow your resources to go towards family needs or your operation.

I recommend you review these guidelines with your loved ones and have a candid discussion about your needs. As you do this, you'll be better prepared for life's uncertainties. From time to time, you'll want to take a look at these guidelines and assess your current situation. You might find your debt has significantly decreased and your children grown, which will change your insurance needs. Another helpful resource to determine life insurance needs is the website <https://fclifenet.com>, which includes an insurance needs calculator. Once you have an idea of your needs, we can review the different products we offer to find the best fit for you. The included chart outlines the products offered by Western AgCredit. As you can see from the chart, we offer different products so you can find the one that best fits your needs. As loan officers, we are all able to offer you the life insurance products at very competitive rates. Feel free to contact your loan officer with any questions, or call me personally and I would be happy to help in any way that I can.

*Karl Pieper, author of this article, is a loan officer in the Richfield Branch. He can be reached at 800.748.5076 or [kfp@westernagcredit.com](mailto:kfp@westernagcredit.com).*

DISABILITY BENEFIT AND WAIVER BENEFIT	INITIAL TEMPORARY INSURANCE	SUICIDE EXCLUSION	PORTABLE	CONVERTIBLE	GUARANTEED RENEWABLE	REQUALIFICATION SCHEDULE	BRANCH OFFICE APPROVAL
<ul style="list-style-type: none"> <li>• IF ELECTED AND DISABLED UNDER AGE 60, ANNUAL BENEFIT IS 10% OF INSURANCE AMOUNT IN FORCE UP TO A MAXIMUM BENEFIT OF \$10,000</li> <li>• 90 DAY WAITING PERIOD; PREMIUM WAIVED WHILE ON DISABILITY BENEFIT</li> </ul> <p><b>MAXIMUM BENEFIT PERIOD:</b></p> <ul style="list-style-type: none"> <li>• 3 YEARS (AGE 50 AND UNDER)</li> <li>• 2 YEARS (AGE 51-55)</li> <li>• 1 YEAR (AGE 56-59)</li> </ul>	<p><b>SHORT TERM:</b> PREMIUM NOT REQUIRED WITH APPLICATION IF FUNDS AVAILABLE FROM MEMBER ACCOUNT</p> <p><b>LONG TERM:</b> WITH MINIMUM THREE MONTHS OF PREMIUM</p>	<p><b>Yes</b> 1 YEAR</p>	<p><b>No</b> IF NO LONGER ELIGIBLE, MAY CONVERT TO INDIVIDUAL POLICY</p>	<p><b>Yes</b> IF NO LONGER ELIGIBLE AS A FARM CREDIT MEMBER, MAY CONVERT TO INDIVIDUAL POLICY-NO HEALTH QUESTIONS ASKED</p>	<p><b>Yes</b> SUBJECT TO PLAN MAXIMUM AND TERMINATION AGE</p>	<p><b>NOT APPLICABLE</b></p>	<p><b>SHORT TERM:</b> <b>Yes</b> (SEE FIELD APPROVAL GUIDELINES AND AUTO INCREASE RULES)</p> <p><b>LONG TERM:</b> <b>NONE</b>, HOWEVER JET UNDERWRITING IS AVAILABLE</p>
<p><b>NONE</b></p>	<p><b>Yes</b> WITH ONE MONTH OF PREMIUM</p>	<p><b>Yes</b> 2 YEARS</p>	<p>NOT APPLICABLE; HOWEVER, INSURED MAY CONTINUE PREMIER LEVEL TERM AS LONG AS PREMIUM IS PAID (WHETHER OR NOT FARM CREDIT MEMBERSHIP CONTINUES)</p>	<p>NOT APPLICABLE; HOWEVER, INSURED MAY CONTINUE PREMIER LEVEL TERM AS LONG AS PREMIUM IS PAID (WHETHER OR NOT FARM CREDIT MEMBERSHIP CONTINUES)</p>	<p>YES- SEE "REQUALIFICATION SCHEDULE"</p>	<p><b>PREFERRED RATES:</b> CURRENT REQUALIFICATION TERM REQUIRED 1 YEAR AFTER 5 YEARS 5 YEAR AFTER 10 YEARS 10 YEAR AFTER 10 YEARS</p> <p>IF PREFERRED INSURED DOES NOT MEET THE PREFERRED UNDERWRITING REQUIREMENTS, RENEWAL WILL BE BILLED AT STANDARD RATES</p>	<p><b>NONE</b></p> <p>HEALTH EXAM MAY BE REQUIRED AT NO COST TO THE INSURED</p>
<p><b>OPTIONAL RIDER:</b> WAIVER OF PREMIUM DISABILITY</p> <p>IF ELECTED, LIFE INSURANCE PREMIUM WILL BE WAIVED IF INSURED BECOMES TOTALLY AND PERMANENTLY DISABLED PRIOR TO AGE 65</p> <p>ELIGIBLE TO APPLY:</p> <ul style="list-style-type: none"> <li>• AGE 16-55</li> <li>• AGE 16-50 FOR 30 YEAR TERM</li> </ul>	<p>AT MINNESOTA LIFE'S DISCRETION WITH ONE MONTH PREMIUM</p>	<p><b>Yes</b> 2 YEARS</p>	<p>NOT APPLICABLE; HOWEVER, INSURED MAY CONTINUE ADVANTAGE ELITE SELECT AS LONG AS PREMIUM IS PAID DURING POLICY DURATION</p>	<p>LIMITED CONVERSION FEATURE AVAILABLE BASED ON DURATION OF THE POLICY. MAY BE EXTENDED TO THE FULL DURATION OF THE TERM OF THE POLICY TO THE FULL LEVEL PERIOD (OR TO AGE 75) WITH THE ADDITION OF THE EXTENDED CONVERSION AGREEMENT AT AN ADDITIONAL CHARGE</p>	<p>YES- SEE "REQUALIFICATION SCHEDULE"</p>	<p>RE-APPLICATION AND EVIDENCE OF GOOD HEALTH ARE REQUIRED TO LOCK IN FOR SUBSEQUENT 5, 10, 15, 20, OR 30 YEAR TERM; FAILURE TO ATTAIN WILL RESULT IN THE OPTION OF RENEWING COVERAGE ON AN ANNUAL BASIS WITH RATES HIGHER THAN STANDARD</p>	<p><b>NONE</b></p> <p>HEALTH EXAM MAY BE REQUIRED AT NO COST TO THE INSURED</p>

A photograph of two men standing in front of a large, complex piece of machinery, identified as a hay compressing machine. The man on the left is wearing a light blue and white striped button-down shirt and khaki pants, holding a white envelope. The man on the right is wearing a light yellow short-sleeved button-down shirt and blue jeans. The background shows the interior of a barn with wooden walls and various pieces of equipment.

*Loan officer Jerry Johnson and Tom Bailey, President of Bailey Farms International, in front of the hay compressing machine in Bailey's Ephraim plant.*

# Locally Compressed Hay Sells Globally

**Bailey Farms International compresses and sells hay from the Intermountain West around the globe.**

For Tom Bailey, what started out as a love of farming turned into an international hay exporting business known as Bailey Farms International.

Raised in Ephraim, UT by an electrical contractor, Tom didn't grow up farming, but when his brother, Ken, started acquiring land around Sanpete County for investment purposes, Tom decided he'd make a career out of his interest in agriculture and started farming the ground in 1986.

In 1996, Tom realized some changes needed to be made to remain viable. "Farming was a great way of life, but after so many years, I thought, 'This is a great way of life, but it isn't an easy way to make a living,'" said Tom.

Tom determined that in order to survive, some changes needed to be made. With this resolution spurring momentum, in 1996 Tom and Ken began looking for other markets for their product, "We were looking for markets that had stability to them where we could consistently sell a large volume of hay," said Tom.

While looking for new markets, the idea of cubing their hay was presented as an option. Cubing hay is a process where hay is sent through a machine that presses it into small compressed cubes to decrease the physical bulk of hay. After researching this option, they started cubing their hay, and with the help of a marketing company, they began exporting it to Japan.

In 1998, with downward trends in the demand for cubed hay, the Baileys decided they needed to diversify. "Rather than just sell cubes, we moved to what they call a double compressed bale," said Tom.

Double compressed bales are cut down and compressed for density. The process reduces the physical size by approximately 50%. "The whole idea is densification so it's easier for them to be shipped overseas," said Tom. "The hay goes to rail head or the coast and we ship them out to all different parts of the world, including the Middle East and the Pacific Rim. When we first got into it, there weren't very many markets, now there are quite a few markets. It seems to have expanded."



Some of the hay is sold in the Midwest and back East, but the bulk goes overseas and is primarily used as feed for dairy cows. “Around 65-70% of the hay is dairy use, the balance of it is for cattle, camels and goats in the Middle East,” said Tom.

The Baileys have capitalized on the expanding market and grown their business. Although the original idea was for new markets for the hay they produced, when they got into the international market and saw the demand, they started buying hay to compress and sell. Today, Bailey Farms International sells about 140,000-180,000 tons of hay per year.

So why is there a demand for hay overseas, especially hay from the Intermountain West? “The thing that makes us unique is our area. There’s really good quality hay raised in the Intermountain West area,” said Tom. “Other countries can’t grow alfalfa like we grow it here. Alfalfa takes kind of an arid climate, and it can’t have a lot of heat to grow good quality. We have all those ingredients here.”

In addition to the necessary climate to grow quality hay, some countries lack cultivated ground. For instance, Japan and Taiwan focus available ground on products for human consumption, not having land to devote to forage products. Another contributing factor is efficiency. “The United States can produce products and ship them worldwide as cheap as they can produce them and haul them across town in some of these other countries, we’ve got a pretty good system that way,” said Tom.

Increased consumer demand in emerging countries for more meat and dairy products than have traditionally been part of their diet has also increased the international demand of forage products. China currently has 14 million

dairy cows, and production continues to grow. According to Tom, who travels overseas three to four times a year, China has some of the most technologically advanced dairies.

Today, only about 10% of the hay sold by the Baileys is turned into cubes, with the bulk going into compressed bales. Compressed bales offer several advantages over the smaller cubes. One of the biggest advantages is that they can be fed easily. When compressing the bales, they keep as much of the original shape and baler sectioning as possible in order to preserve the leaf composition and quality of the hay. The bales can be easily unwrapped, sections removed, and fed directly to livestock. For most animals, cubes have to be broken up before feeding, They are often put through a compound feed mill and mixed with other feed stuff. Horses like straight cubes, and Baileys sell some cubes to a company that bags and sells them domestically through feed stores.

When the Baileys started compressing bales, they produced a 30 Kg bale, which is just under 70 lbs. However, they wanted to be able to compress larger bales. “When we started, most people were doing a two and three string type bale and compressing it. We didn’t want to go back to that because it was costly and inefficient to produce,” said Tom. “We wanted to be able to take our big bales and press them down.”

By modifying current technology, the Bailey’s built a machine that compressed the size and quality of bales they wanted. In 2003, they became the first in Utah to produce a 450 Kg bale, which is just under 1000 lbs.

In addition to growing their product line, the Baileys have acquired new facilities to meet demand and decrease shipping by compressing the hay closer to where it is grown.

*(Continued on next page)*



*A hay cube in front of a pile of cubes.*



*A compressed bale in the compressing machine.*



*450 Kg. compressed bales ready for shipment overseas.*



*An aerial view of Bailey Farms International's Ephraim facility.*

Their original plant is in Ephraim, UT and they still compress and cube hay at that site. In September of 2004, they purchased a plant in Delta, UT. In December of 2006, they finished building a new plant in Bear River City, UT. "We were bringing hay into Ephraim from Idaho," said Tom. "The Bear River plant allows access to more hay without having to freight it so far."

Baileys are Utah's largest exporter of alfalfa, and they are currently running at 50% capacity. "Our target is 10% growth annually, if the markets allow," said Tom.

Bailey Farms International operates under a well-thought out business plan with several guiding principles put in place to help the company remain viable and weather the fluctuating market prices. This is essential when doing business in an ever-changing international market that is very capital intensive and competitive. "The dynamics of international trade markets have changed tremendously over the 16 years we've been doing it," said Tom.

One of the most critical areas managed is the level of risk they are willing to take in the fluctuating markets. The Baileys operate with very little speculations, preferring to know their purchase price before determining the selling price. "The Baileys have a real good handle on the level of risk they want to take and how they manage that risk. They are excellent businessmen," said their Western AgCredit loan officer, Jerry Johnson. "I have observed from a business standpoint, Tom and Ken have a very unique relationship with each other. They each bring a perspective which compliments and works well for their management style. This chemistry has proven very successful for them."

Over the years, Bailey Farms International has developed markets and now sells the majority of their product

directly to the end user. In order to be successful, they have had to educate themselves on international trade including logistics, currency exchange, trade agreements, permits, certifications between countries and quality regulations.

Many countries have very specific regulations on products hay can be treated with and still imported into their countries. In order to ensure they meet these country-specific standards, the Baileys have a detailed inventory tracking system that allows them to track hay from each producer. They keep loads from different growers together, labeled and stored separately. "I don't tell them how to farm, but I ask them what they use," said Tom.

The labeling allows them to track what products were used on each shipment of hay, and this is tracked through the entire process. This tracking allows the Baileys to ship hay that meets country-specific standards.

Another key piece of their business model is selling directly to the consumer. "Our strength is determination to go out and meet the markets and do it direct. A lot of what we do is sold direct," said Tom. "You have to know how to interact internationally, it's imperative that you know how to do that."

Tom credits Steve Tingey, Bailey Farm's employee tasked with sales and marketing, for much of their success in international markets. "Steve knows how to communicate with people. That's a very important thing, being able to recognize the value of your product and position it in the market is vital," said Tom.

Positioning their product is another part of their business plan that has helped them succeed, "If you chase the market based on price alone, you'll fail," said Tom. "Our product has an additional value to it because of its quality, and our whole idea was to not participate in existing markets but to establish other markets and to grow them, and that's what we've focused on very heavily."

In order to grow their market in China, Baileys have opened an office in China since the country requires that companies have an office in the country if they are going to market directly. In all, Bailey Farms employs about 80 people including Tom's wife, Michelle, who oversees the business finances, and their son, Keith, who uses his business degree to help the family business.

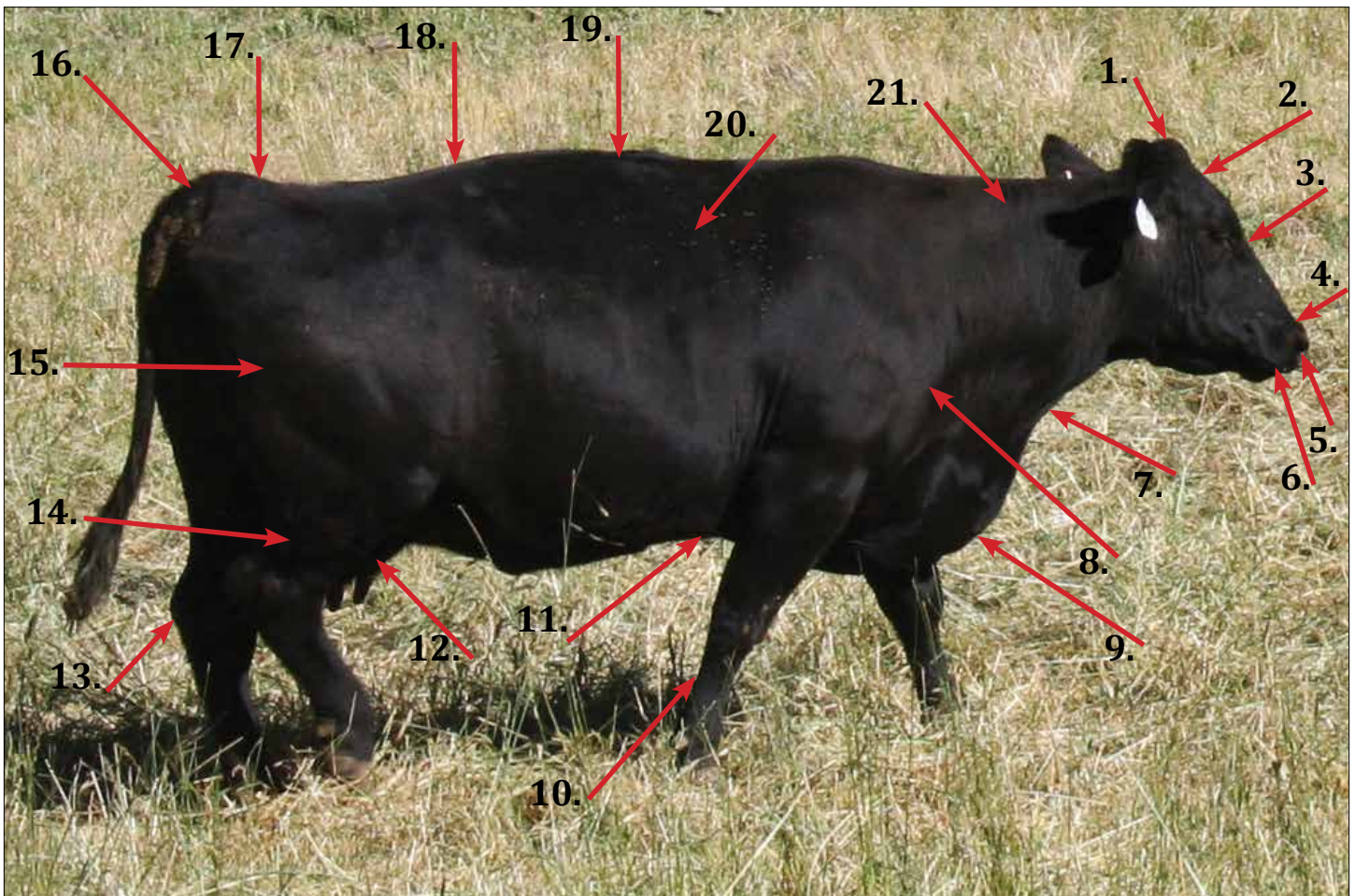
As the Baileys continue to watch emerging markets, their business philosophy of providing a quality product at a fair price, along with the reputation they have gained from consistently doing so for over 16 years, will help them continue to grow Bailey Farms International and open new markets around the globe.

# Congratulations to

**Bostan Sargent of Coalville, UT & Jaden Coates of Aurora, UT**

## Winners of Name the Parts of the Beef Cow Contest!

**Each received a \$50 gift certificate to Cabela's!**



- |           |             |            |             |               |           |
|-----------|-------------|------------|-------------|---------------|-----------|
| 1. POLL   | 2. FOREHEAD | 3. FACE    | 4. NOSE     | 5. NOSTRIL    | 6. MUZZLE |
| 7. DEWLAP | 8. SHOULDER | 9. BRISKET | 10. CANNON  | 11. FOREFLANK |           |
| 12. UDDER | 13. HOCK    | 14. STIFLE | 15. QUARTER | 16. TAILHEAD  |           |
| 17. RUMP  | 18. LOIN    | 19. BACK   | 20. CROPS   | 21. NECK      |           |

# Strategic

**By: Chip Wallen, Senior Risk Manager at CIH.  
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Many crop and livestock producers think about managing their profitability in terms of having a “marketing plan.” Among other things, this typically includes detailing an operation’s cost of production and setting price targets to achieve a given level of profitability above those production costs. For some, this will be fairly elaborate, with detailed operating cost schedules and price targets set based upon advanced analytical tools. For others, it may be simple, with triggers set based on straightforward targets above anticipated costs. Still others may have no plan at all, hoping to hit a home run and not strike out at the vagaries of market price fluctuations. Unfortunately for the latter group, these variances have grown in the past few years with increased volatility across all agricultural markets. As a result, it has become increasingly risky to approach marketing decisions without a clearly defined plan that is carefully thought out and adhered to closely.

One perspective on marketing plans that has gained traction in recent years as a result of this increased volatility is the concept of “margin management.” While not exactly a new approach, this basically means approaching marketing decisions from the perspective of an overall profit margin – managing costs and revenues together as a single unit of risk. Many operations have historically assumed their costs first, determined their cost of production or “breakeven” level, and then set marketing targets based upon revenue goals above the operation’s costs. By contrast, a margin management approach would seek to model an operation’s costs and revenues together and project those out in time.

As an example, a dairy operation could model variable feed costs around corn and soybean meal

based on the energy and protein equivalents these feeds represent in their rations. Other non-feed costs would be held fixed and then the total costs could be projected against forward milk prices. These forward projections would be derived from looking at futures prices. As another example, a cattle feedlot could model their projected forward feeder prices and corn expenses using the futures market along with fixed costs assumptions, and run those against fat cattle futures prices for finished animals ready to be marketed to the packer.

The futures market is considered a “price discovery” mechanism in that the terms of a futures contract are standardized by an exchange, and buyers place bids while sellers make offers to determine what the value of that contract is on a daily basis. Because it is a futures market however, several contracts trade at any given point for a commodity across different time periods, therefore the value can be thought of in more than one dimension. One can consider the “spot” value of the commodity or what it is worth today based upon a contract that is close to expiration. One can also consider the forward value of the commodity based upon a contract that will expire sometime in the future. The price discovery process is in essence determining how that value is perceived to change over time by all the participants in the market. This is referred to as the forward price curve, and it is an important dimension of the price discovery process.

Where this comes into play with regards to margin management is leveraging the futures market as a price discovery tool to become a profit margin discovery tool by extension. How does one do this?

# Margin Management

Going back to the dairy example, you would begin by modeling your dairy around both fixed and variable costs, as well as revenues coming into the operation. A big portion of a dairy's variable costs will be tied to feed expenses, and in many cases these expenses in certain parts of the ration will correlate to either corn or soybean meal which trades on the futures exchange. For that matter, a dairy's milk check will also correlate to Class III Milk futures on the exchange, such that costs paid and revenue received can be accurately modeled looking forward in time. Making certain assumptions about future "fixed" costs, a dairy can look at deferred futures prices and discover an unrealized profit margin that the marketplace is implying at any given point in time.

The beauty behind this approach is that it is often the case that the best profit margin opportunities will present themselves well ahead of the actual marketing period. They may also present themselves well ahead of when costs will be assumed for the operation. A cattle feedlot for instance will place cattle and assume feed costs and then consider their breakeven cost of production when making marketing decisions on their finished cattle to the packer. While there is nothing wrong with this approach, it may be the case however, that if they were looking at feeder cattle and corn prices ahead of assuming these costs against live cattle prices, a better profit margin might be discovered modeling forward futures prices into a margin calculation. A dairy might be realizing a spot loss based upon realized costs against current milk prices while at the same time, forward projected feed costs against projected milk prices are signaling a historically strong profit margin for that same dairy

operation in a deferred period. Margin management tools can be effective in capturing future profit margins that may change or disappear over time.

In order to be successful utilizing a margin management approach, it is critical to have a defined marketing plan based upon triggers to execute margin coverage. Using historical percentiles, an operation can define levels of profitability that are attractive to scale into protection of a projected profit margin in a future period. What is nice with this approach is that historical profitability can be objectively defined, and approaching it from a margin perspective removes much of the emotion and subjectivity about independently pricing input costs or booking sales revenue. In fact, many operations have found it to be riskier taking this approach, as costs booked at what is considered an attractive level can become expensive quickly if those are not matched with corresponding sales while both markets are declining in price. Similarly, committing to forward sales while not locking in costs can be detrimental in a rising market environment where both input costs and sales values are increasing.

Having a well-defined marketing plan also takes much of the emotion away from making decisions. Determining ahead of time what an operation's goals and objectives are regarding profitability makes it easier to commit to marketing decisions when those objectives are met with opportunities presented by the market. While being able to accurately forecast prices is not a reasonable expectation for any crop or livestock producer, the ability to make more informed marketing decisions based upon historical, objective data is within the realm of possibility and has proven a successful approach for many operations.



# GIVES BACK

Western AgCredit is committed to supporting agriculture in our territory and being good corporate citizens. Below is an overview of community support and financial support given to the agriculture community in recent months.

## Evanston Staff Helps with “Weed Pull Day”

In July, employees at the Evanston branch along with their families participated in “Weed Pull Day” at the Bear River Parkway located near the Ice Ponds. The purpose of this service project was to pull weeds in an effort to remove noxious weeds in areas that cannot be sprayed.



## South Jordan Staff Beautifies Lifestart Village

In June, the South Jordan staff participated in a beautification day at Lifestart Village. Lifestart Village helps move single women with children from dependency to self-sufficiency. Western AgCredit, with the help of staff, provided and placed new wood chips in the playground, purchased and delivered new file cabinets, and cleaned up the community.



## Richfield Staff Helps With ATV Jamboree



The Rocky Mountain ATV Jamboree is held annually in Richfield. This year, the Richfield staff volunteered to help serve dinner to the roughly 600 participants. Additionally, Western AgCredit sponsored one of the Jamboree rides, allowing staff to take people through the beautiful scenery in the mountains surrounding their area.

## Cedar City Staff Volunteers at Utah Summer Games

In July, the Cedar City staff volunteered for the Utah Summer Games. They worked as field supervisors for soccer and as a track assistant. They enjoyed the opportunity they had to work with referees, participants and spectators as they helped at this event in their community.



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- SNOW COLLEGE



# Laughing Pen

“Cultivators of the earth are the most valuable citizens. They are the most vigorous, the most independent, the most virtuous, and they are tied to their country and wedded to its liberty and interests by the most lasting bands.”

- Thomas Jefferson

## Life...

Living on Earth is expensive, but it does include a free trip around the sun every year.

How long a minute is depends on what side of the bathroom door you're on.

Happiness comes through doors you didn't even know you left open.

Ever notice that the people who are late are often much jollier than the people who have to wait for them?

If Walmart is lowering prices every day, how come nothing is free yet?

A truly happy person is one who can enjoy the scenery on a detour.

## Did You Ever Wonder?

If a parsley farmer is sued, can they garnish his wages?

Would a fly without wings be called a walk?

Can you be a closet claustrophobic?

When it rains, why don't sheep shrink?

Why is the word abbreviation so long?

What do you do when you discover an endangered animal that eats only endangered plants?

Do hungry crows have ravenous appetites?

What's another word for thesaurus?

Why is there an expiration date on sour cream?

Isn't it a bit unnerving that doctors call what they do "practice"?

## Aging

Eventually you will reach a point when you stop lying about your age and start bragging about it.

Don't let anyone tell you you're getting old. Squash their toes with your rocker.

When you are dissatisfied and would like to go back to youth, think of Algebra.

I don't know how I got over the hill without getting to the top.

Age seldom arrives smoothly or quickly. It is more often a succession of jerks.

## The Requirements Of This Job

The older rancher took his wife to town to see the new doctor. He waited for her outside while he shot the breeze with some ranchers in town. After a few minutes, he heard his wife scream, then she slammed through the door and nearly knocked him down. Finally, he calmed her enough to learn what the problem was.

After listening to her story, he helped her into the truck to wait for him while he settled things with this new upstart. He hitched his gun belt in place and marched in to confront the doctor.

“What's wrong with you?” the rancher demanded of the doctor. “My wife is 63 years old. We have five grown children and eleven grandchildren, and you told her she was pregnant?”

The new doctor raised his eyebrows and asked, “Does she still have the hiccups?”



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