

Marketing Your Timber: The Bidding Process



Timber marketing is one of the most important steps in good forest management. Marketing can remove trees that are unhealthy or inferior in quality. Financially mature trees can be sold to encourage reforestation. Timber marketing is also a rare opportunity to make a profit from the years of caring for a forest.

Because landowners sell timber infrequently, they often do not have specialized knowledge about logging, timber estimation, utilization standards, or local markets. This lack of marketing knowledge is costly to the landowner because it decreases the price paid for timber. Also, bad marketing decisions today can leave an unmanageable, poor-quality stand of timber.

A good marketing plan helps you to approach the timber sale in a businesslike manner. In preparation, there are many important questions to answer, including these:

- How should I sell my timber?
- Do I need professional forestry assistance?
- Are my trees ready to sell?
- How much timber and what products do I have?
- What is its value?
- Who will buy my timber?

Marketing allows the landowner to discuss with potential buyers their views on the timber sale before it is finalized.

Selling Methods

A key element in marketing is choosing the best method to establish the fair-market value for your timber. The two methods commonly used in the South are negotiation and sealed bids. Either method can be used for clearcuts or for timber that is individually marked for sale.

Larger landowners can also negotiate delivered timber prices at a mill and hire a logger to cut and deliver. This type of sale is called a 631(a) by the IRS. In some cases, timber is sold on a share basis with a logger. With all methods, you will first need a pre-sale timber valuation to be on an equal footing with the timber buyer. We will discuss pre-sale valuations later in this publication.

Negotiation

Thinnings, salvage, and small acreage sales are the most common examples of negotiated sales. Here, the buyer and seller agree on a sales price of timber through face-to-face negotiations. Negotiated sales are best when timber is of low value, scattered, and/or hard to inventory. In addition, certain specialty products, such as high-value hardwoods and poles, are often purchased through negotiation.

In negotiation, landowners are expected to know the timber products they have for sale and how the local market currently values their timber. That is why a typical landowner can be at a disadvantage in this situation. Negotiated payments are paid on a tonnage rate (dollars per ton) for each species and product. Tonnage rates can be for a fixed amount or the delivered value minus an agreed logging cost. An up-front payment of 10–25 percent of total value is common. This assures the timber will be harvested.

Sealed Bids

Final timber harvests and thinnings of older timber are typically sold in sealed-bid sales. Timber of high quality and easy to measure will usually receive a higher price with the sealed-bid method. Here, timber value is established when prospective timber buyers submit sealed written offers to be opened at a specified time and place. Each bidder is allowed to make only one bid. The bidding process is covered in detail later in this publication.



Working with a Public Service Forester

Public service foresters with the Mississippi Forestry Commission (MFC) or the USDA Natural Resource Conservation Service (NRCS) can provide limited assistance to forest landowners. Public service foresters are not allowed to compete with the private sector. They also cannot estimate volumes and value of timber, lay out timber sales, provide sales security or logging oversight, prepare sales prospectuses, or market timber sales for individuals.

These professionals are a great source for general management advice, such as whether your timber is ready for harvest. They can provide information and assistance with government programs like cost-share for timber stand protection, improvement, or reforestation. A public service forester may also be able to give you a list of timber buyers and/or loggers in the area to help you in marketing your timber for sale.

Working with a Consulting Forester

We strongly advise landowners to work with a consulting forester, especially landowners who are not well informed about local timber markets and/or about forest management techniques. A consulting forester is a graduate of an accredited forestry school and/or is registered by the state where he or she operates, who offers consulting services to the public for a fee.

Research has shown that consulting foresters increased net returns from high value sales, even after subtracting the cost of their services. The satisfaction level of landown-

ers following the sale was also much higher (Munn and Franklin, 1995).

Consulting foresters may be paid by an agreed-upon hourly rate, a per-day rate, a flat fee per service, or on a commission basis. Generally, a commission is based on a negotiated percentage of timber sales receipts. The percentage varies with the size of the sale and type of sale, the expected amount of work involved, and the amount of service provided by the forester.

Larger, higher-value sales typically have a lower commission than smaller, lower-value sales. Marked sales require higher commissions than clearcuts because there are extra costs in marking trees for sale and protecting trees not for sale.

Some consulting foresters only market and sell timber, while others provide full service for their commission, such as estimating tax basis, sales security, logging contract compliance, and arranging for and supervising reforestation. The level of service provided by a forester should be considered in negotiating the rate of commission.

The names and addresses of consulting foresters can be found on the Mississippi Board of Registration for Foresters website at <http://www.cfr.msstate.edu/borff/>. The best way to determine a consulting forester's reputation is through networking. Attend local forestry meetings and ask other landowners recommendations. Once you have a list of recommended consulting foresters, interview them and ask for references. Be sure to check these references.

Before any work is done, you and your consulting forester should discuss and agree on the extent of services provided, method of payment, and expected fees. A written contract or letter of agreement should spell out details clearly to protect both you and your consulting forester.

Title and Taxes

Many timber sales are cancelled when potential buyers cannot verify ownership by title search. Only the legal owner can sell timber. Therefore, before you attempt to sell timber, verify your ownership and clear up any title issues to the timber. Satisfy any liens and secure a release from the lender. Make sure property taxes have been paid in full. If the tract is owned by more than one owner, all owners must agree to sell and be willing to sign the sales contract.



Timber Valuation:

Determining Pre-sale Timber Value

Successful timber marketing requires knowledge of what you are selling. A forester can provide a pre-sale valuation of timber to include the types of timber present, the volume of each type, and an estimated fair market value. At the same time, your forester can help you improve site conditions that adversely affect logging potential and marketing plans.

To estimate standing timber value, the forester performs a "timber cruise." For marked sales, this may be a 100 percent tree tally. But for clearcuts, value is estimated from a random sample of measured timber in plots or points spaced over the tract. From this cruise, the volume or tons of timber by species and product is estimated. This cruise data is combined with timber price information to provide an estimate of timber value. This value helps determine if a negotiated offer or bid offer is reasonable. An estimated value also allows you to plan ahead on federal and state taxes.

Logging Access and BMPs

Log loading decks and logging roads and skid trails to be used by the loggers to drag timber should be marked on the tract. If the timber is not adjacent to a public road, you must obtain written rights-of-way or easements from the owners of the land that must be crossed to gain access.



Contact your county supervisor to obtain permission to haul timber on county roads. The timber buyer or logger should sign all easements and pay any fees.

Best management practices (BMPs) are a set of operating guidelines created by the Mississippi Forestry Commission to protect land and water quality. You must follow BMPs on any timber sale. One of these practices is the protection of streams using protected areas called stream-side management zones (SMZs). The forester can identify the SMZs and mark the proper trees to be harvested within these zones.

Marked Timber and Sale Boundaries

There are several ways to identify timber to be sold. People usually mark sale boundaries by painting on trees. To mark SMZs, you can paint the boundaries or use plastic flagging. Roads or good fences also can be used to define the sale area. Poorly marked boundary lines can lead to timber trespass problems and discourage prospective buyers.

Some types of timber sales require marking of individual trees. Thinnings, individual or group selection, seed tree, or shelterwood harvests may require that individual trees be marked with paint. These trees should be marked at chest or eye level and at ground level. The high mark is for the logger while the low mark ensures only the proper trees are removed during the harvest.

Some landowners mark the trees that are to be cut; some do the opposite. In the leave-tree method, the trees

not for sale are marked. Trees for sale can be identified by a sale boundary (clearcut), or the contract can describe which size and/or species of trees are for sale.

In first thinnings, often the logger or operator selects the trees to harvest. Another common practice for first thinnings is to remove preset rows of timber, such as every third, forth, or fifth row.

Notify Neighbors

Before the sale, make sure you and your neighbors agree on the property boundaries. Clearly mark the agreed upon property and sale boundaries so that there is no danger of trespass during the sale operation.

Landowners are not legally required to notify neighboring landowners of the intent to sell timber, but it is a good idea.

Potential Buyers

The last step in preparing your timber sale prospectus is to develop a list of prospective buyers. Each company buys a slightly different mix of timber species, sizes, and products. A good place to start is the MSUCares website for Forest Products. You can generate a list of nearby wood-using industries by product from this site.

The local Mississippi Forestry Commission and MSU Extension Service offices may have lists of prospective timber buyers and the products they buy. If you are using a forestry consultant, he or she should already have a good list.

Preparing the Sale Prospectus

The best way to attract interest in your timber is good advertising. Whatever the selling method, a good timber sale prospectus, often referred to as a bid invitation, is a key to attracting interest in your timber. More buyer interest results in greater price competition, which generates higher offers for your timber.

There are several steps to preparing your timber sale prospectus. You must have accurate, reliable information, and it needs to be sent to as many prospective bidders as possible.

Once your timber cruise is completed and the sale is planned, the sale prospectus or bid invitation can be prepared. The invitation to bid is a letter with supporting materials and maps that describes sale conditions and the timber being sold.

Each bid invitation is different, depending on the type, size, and information included. The main elements in a bid invitation include these:

Identification of Seller or Seller's Agent

This section should identify the seller(s) by giving full legal name(s), business or home addresses, and telephone numbers. If a forestry consultant is representing you, this section also indicates he or she is your agent and includes the firm's name and contact information.

Bid Opening Details

Set the date, time, and place where the bids will be opened. Invite buyers to attend the opening and specify how you will notify them if their bids are successful. Allow 4 to 6 weeks between advertisement and the bid opening. This allows adequate time for the buyers to evaluate the sale area and to draw up their bids.

Location and Size of Sale Area

Include the complete legal description and acreage of the sale area in this section. If the sale area is in separate tracts, provide information on each one. Include a description of the sale boundaries and how they are marked because the prospective buyer will want to examine each tract. In your bid invitation, include two maps of the sale area. The first should be of the sale area itself and the surrounding tracts. It should show property boundaries, sale boundaries, access roads, streams, and other physical land features. The second map should show the location of the sale area in relation to nearby towns, highways, and county roads.

Sale Area Tour

If desired, set a time and place for prospective buyers to tour the sale area and be shown the boundaries, SMZs, logging and skid trails, road access, etc. The buyer may



then return at a later time to cruise the timber so that he or she may prepare a bid. Lock gates with combination locks to give access to buyers.

Type of Sale

This section tells the buyer how the timber is to be sold. Timber may be sold by lump sum, which is a single sum agreed upon before harvest. Timber may be sold on a per-unit (pay as cut) basis, which means the timber owner is paid a flat rate for each unit harvested. Here, payments are usually determined by scale tickets. Also in this section, include a description of how the trees to be cut are designated—by marking (paint), diameter, species, or sale boundary. Include how the volume information was determined (i.e., from a sample timber cruise or a 100-percent tree tally).

Tree Volume (tons)

There is disagreement on how much inventory information should be provided to buyers. More information may attract buyers but can also compress the range in bids. You can include a table of total and average volume or tonnage by species and product class. Average tree size by

species and product is also useful. If there are separate sale areas, give this information for each tract, as well as a total sale summary. Identify the log rule used if volume estimation is presented. Describe the minimum top diameters for pulpwood and saw timber.

Harvesting Restrictions and Conditions

Provide all restrictions or conditions that are to be placed on your logging operation. Such restrictions can include no wet weather logging, required road maintenance or rehabilitation after use, special sites and trees to be protected, supervision requirements, and penalty provisions. This information also will be in the timber sale contract, but the prospective buyer should be made aware of restrictions before bidding.

Performance Bonds

Some landowners require the successful buyer to post a performance bond. This bond provides an incentive for the timber buyer/logger to correct any problems promptly. The performance bond is released when the sale is successfully completed according to contract specifications.



Duration of the Sale Agreement

Designate the time a buyer has to harvest the timber by setting a beginning and ending date for the timber sale. Clearly state options for a sales contract extension in case of poor weather or inability of the logger to deliver the wood. In determining the length of time allowed, consider tract size, volume, and ground conditions. In the South, 1–3 years is the normal harvest period allowed. Any restrictions, such as “no harvesting during the hunting season,” may drastically reduce timber value.

Conditions for Bid Acceptance

Explain your conditions for an acceptable bid. This information includes bid format, how to address the bid, and terms for a bid-performance bond, if required. Specify requirements for receiving the bids, either mailed or hand-delivered. State that you retain the right to refuse any or all bids. Also specify a time limit for seller and buyer to agree to a sale contract and sale closing. Sometimes, no buyers will bid on timber. When this happens, make personal calls to buyers to determine if there were any problems with the sale. Correct problems and resubmit for bids in 6+ months.

Provisions for Payment

Outline the payment method in this section. Specify your preference, such as personal or certified cashier’s check, and time of payment. For bid sales, you may want one lump sum at sale closing, or for tax purposes, you may want to spread income over several years. If installment payments are used, require the timber buyer to pay interest on the unpaid balance. Otherwise, the IRS will impute tax on this interest whether you charged any or not.

Timber Sales Contract

Attach a copy of the timber sales contract. Consulting foresters can provide a sales contract that you can modify to meet your needs, or you may consult a lawyer with experience in creating timber sales contracts.

Bid Form

Include a sample bid form to make it easier for the buyer to submit his or her bid. This also makes it easier for you to compare bids.

Bid Opening Ethics

Landowners and their agents must abide by bid opening ethics. Today, bids can be mailed, faxed, emailed, and even phoned in at the last minute. Prepare to accept bids by all methods, and seal each bid in an envelope.

Do not open the sealed bids early. Keep them confidential until the appointed time. Do not allow late bids to be accepted. Do not bargain with bidders before or after the opening.

Open the bids at the appointed time and date in the presence of the bidders. Buyers should not know how many bidders there are until the bid opening. Bid results should be provided to all bidders but otherwise kept private. Also, send a thank you note to each bidder.

The decision to accept or reject bids should be made within the appointed time frame, usually the day of or up to 3 days after the bid opening. Conduct the bidding process in a businesslike manner. Answer all questions and inquiries, and keep records of discussions to help prevent misunderstandings.

Some landowners violate timber sale ethics by “bumping bids.” This is a quick way to ruin your reputation in the forestry community. An example would be to accept a bid from Buyer #1, then contact Buyer #2 and use this price to leverage a higher price with Buyer #2 after the bid opening.

Choosing the Best Bid

Examine the bids and, based on bid price and knowledge about the bidders, select the winning bidder as soon as possible. Notify all unsuccessful bidders promptly. Schedule a meeting with the winning bidder to discuss drafting and executing the sales contract.

Choosing the best bid is not just taking the highest price offered. Each bid should stand on its own and it should not be used to leverage or “bump up” another bid. If all bids fall below 10 percent of your pre-sale timber appraisal, then you may be justified in rejecting all bids. It may also mean the timber appraisal was not realistic.

Investigate the reputation of the top bidders. Consider who does the buyer’s harvesting and the quality of the harvester’s work. A poor logging job or problems with the buyer can cost you time and money.

If the top bid was not accepted, announce your minimal acceptance price to the top bidder. Then, if the buyer agrees, allow time for markets to change and for your top bidder to meet your price. Otherwise, you may market your timber again in 6+ months.

Summary

Don't let selling your timber become a disappointing experience. Seek professional assistance if you lack enough experience to properly market and bid or negotiate a timber sale. Create and use a good marketing plan for timber sales to meet your forest management goals and objectives and receive a fair price for your timber.

Reference

Munn, Ian A., and E. Carlyle Franklin. 1995. "Valuation of Consulting Foresters' Contribution to Timber Sale Prices." *The Consultant*, Winter 1995.

Publication 1620 (POD-08-14)

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Extension Service of Mississippi State University, cooperating with U.S. Department of Agriculture. Published in furtherance of Acts of Congress, May 8 and June 30, 1914. GARY B. JACKSON, Director