

# Marketing Your Timber: The Bidding Process



Timber marketing is one of the most important steps in good forest management. Marketing can remove unhealthy and inferior trees. Financially mature trees can be sold to encourage regeneration and is the primary opportunity to profit from 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 can be costly to landowners because it decreases the price paid for timber. Also, bad marketing decisions today can leave an unmanageable, poor-quality stand of timber for future efforts.

A good marketing plan helps you approach selling timber in a businesslike manner. In preparation, there are many important questions, 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 their views on the timber sale before it is finalized.

## Selling Methods

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

Larger landowners can sometimes 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. It may also be possible to sell timber on a share basis with a logger. With all methods, you will first need a pre-sale timber valuation to ensure equal footing with timber buyers. Pre-sale valuations will be discussed later in this publication.

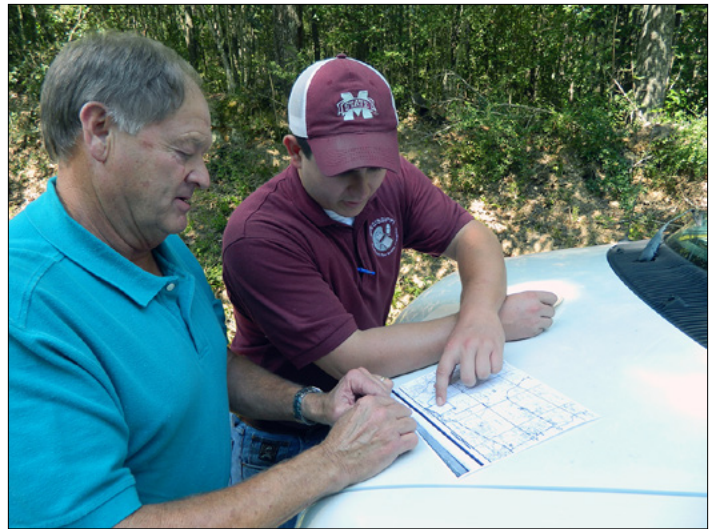
### *Negotiation*

Thinnings, salvage, and small acreage sales are the most common examples of where negotiated sales are appropriate. Here, the buyer and seller agree on a satisfactory price of timber through face-to-face negotiation. 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. This is the primary reason why a typical landowner can be at a disadvantage when selling timber. Negotiated payments are paid on a tonnage rate (dollars per ton) for each species grouping 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 and can be thought of as an earnest payment.

### *Sealed Bids*

Final timber harvests and thinnings of older timber are best sold in sealed-bid sales. High quality, easy to measure timber typically receives 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 Resources 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 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 provide a list of timber buyers and/or loggers in the area to help in marketing timber for sale.

## Working with a Consulting Forester

It is highly advisable for landowners to work with a consulting forester, especially landowners not well informed about local timber markets and/or about forest management techniques. Consulting foresters graduate from an accredited forestry school and are registered by the state where they operate, who offers consulting services to the public for a fee. Research has shown that consulting foresters increase net returns from high value sales, even after subtracting the cost of their services.

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 size and type of sale, the expected amount of work involved, and the amount of service provided.

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 those that are not.

Some consulting foresters only market and sell timber, while others provide full service (e.g. estimating tax basis, sales security, logging contract compliance, and arranging for and supervising reforestation) for their commission. 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 <https://www.borf.ms.gov>. The best way to determine a consulting forester's reputation is through networking. Attend local forestry meetings and ask other landowners for recommendations. Once a list of recommended consulting foresters is created, interview them and ask for references. Be sure to check these references.

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

## **Title and Taxes**

Timber sales are cancelled when potential buyers cannot verify ownership by title search. Only the legal owner can sell timber; therefore, before attempting to sell timber, verify ownership and clear up any title issues to the timber. Satisfy any liens and, if needed, secure a release from lenders. 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 is being sold. A forester can provide a pre-sale valuation of timber to include types of timber present, the volume of each type, and an estimated fair market value. At the same time, a forester can help 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; however, for clearcuts, value is estimated from a random sample of measured timber in plots or points spaced over the tract. From this cruise, 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 for tax planning.

## **Logging Access and BMPs**

Loading decks and logging roads/skid trails to be used by loggers to drag timber should be marked. If timber is not adjacent to a public road, written rights-of-way or easements must be obtained from owners of land that must be crossed to gain access. The county supervisor should be consulted regarding permission and/or permitting 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. While voluntary in Mississippi, BMPs should be followed on any timber sale. One of these practices is the protection of streams using protected areas called streamside management zones (SMZs). The forester can identify SMZs and mark 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 trees. To mark SMZs, the boundaries can be painted or plastic flagging can be used. 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 individual trees. Thinnings, 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. High marks are for logging operators while low marks are to ensure that only intended trees are removed.

Some landowners mark trees to be cut, some do the opposite. In the leave-tree method, trees to be left 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 which trees to harvest. Another common practice for first thinnings is to remove preset rows of timber, such as every third, fourth, or fifth row.

### **Notify Neighbors**

Before the sale initiates, make sure adjacent landowners agree on property boundaries. Clearly mark 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 and can reduce tension in the future.

### **Potential Buyers**

The last step in preparing a timber sale prospectus is to develop a list of prospective buyers. Each company buys a slightly different mix of timber species, sizes, and products.

The local Mississippi Forestry Commission office may have lists of prospective timber buyers and the products they buy. If using a forestry consultant, he or she should already have potential buyers in mind.

### **Preparing the Sale Prospectus**

The best way to attract interest in a timber sale 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 a sale. More buyer interest results in greater price competition, which generates higher offers for timber.

There are several steps to preparing a timber sale prospectus. Accurate reliable information is necessary, and it needs to be sent to as many prospective bidders as possible. Once the timber cruise is completed and a sale is planned, the sale prospectus or bid invitation can be prepared. The invitation to bid is a letter with supporting materials and maps describing sale conditions and the timber being sold.

Each bid invitation is different, depending on 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 will be representing landowner interests, this section also indicates he or she will be the operational contact and includes the firm's name and contact information.

### ***Bid Opening Details***

Set the date, time, and place where bids will be opened. Invite buyers to attend the opening and specify how they will be notified if their bid successful. Allow 4 to 6 weeks between advertisement and the bid opening. This allows adequate time for buyers to evaluate the sale area and to draw up 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 sale boundaries and how they are marked because prospective buyers will want to examine each tract. In a bid invitation, include two maps of the sale area. The first should be 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 sale area location 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 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 buyers how timber is to be sold. Timber may be sold by lump sum, which is a single sum agreed upon before harvest. Timber may also 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 trees to be cut are designated—by marking (paint), diameter, species, or sale boundary. Include how volume information was determined (i.e., from a 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. A table of total and average volume or tonnage by species and product class may be included. 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 minimum top diameters for pulpwood and saw timber.

### ***Harvesting Restrictions and Conditions***

Provide all restrictions or conditions to be placed on the logging operation. Such restrictions can include limitations on wet weather logging, require road maintenance or rehabilitation after use, protect special sites and trees, supervision requirements, and penalty provisions. This information also will be in the sale contract, but prospective buyers should be made aware of restrictions before bidding.



### ***Duration of the Sale Agreement***

Designate the amount of time a buyer has to harvest 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 to deliver 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 hunting season,” may drastically reduce timber value.

### ***Conditions for Bid Acceptance***

Explain 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 bids, either mailed or hand-delivered. State that the right to refuse any or all bids is retained. Also specify a time limit for seller and buyer to agree to a sale contract and sale closing. Sometimes, no bids will be received. If this happens, make personal calls to buyers to determine if there were problems with sale specifics. Correct problems and resubmit for bids in 6+ months.

### ***Provisions for Payment***

Outline the payment method in this section. Specify preference, such as personal or certified cashier’s check, and time of payment. For bid sales, one lump sum at sale closing may be preferential, or for tax purposes, the income may be spread 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 any was charged or not.

### ***Timber Sales Contract***

Attach a copy of the timber sales contract. Consulting foresters can provide a sales contract that can be modified to meet specific needs, or consultation with a lawyer versed in timber sales contracts may be warranted.

### ***Bid Form***

Include a sample bid form to make it easier for buyers to submit their bid. This makes it easier 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 sealed bids early. Keep them confidential until the appointed time. Do not accept late bids and do not bargain with bidders before or after the opening.

Open bids at the appointed time and date in the presence of bidders. Buyers should not know how many bidders there are until bid opening. Bid results should be provided to all bidders but otherwise kept private.

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 bid opening. Conduct the bidding process in a businesslike manner. Answer all questions and inquiries and keep records of discussions to help prevent misunderstandings.

## **Choosing the Best Bid**

Examine the bids and, based on bid price and knowledge about 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 a sales contract.

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

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

If the top bid was not acceptable, announce the minimal acceptance price to the top bidder. Then, if the buyer agrees, allow time for markets to change and for this bidder to meet the agreed upon price. Otherwise, timber may be marketed again in 6+ months.

## Summary

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

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