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Lake States Woodlands Marketing Timber

Michigan State University Extension Service

A. Jeff Martin, University of Wisconsin - Madison; Karen Potter-Witter, Michigan State University; Jerry Lapidakis Wisconsin Department of Natural Resources

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# LAKE STATES WOODLANDS

## Marketing Timber



A. Jeff Martin, Karen Potter-Witter, Jerry Lapidakis

### What Makes A Successful Timber Sale?

The decision to sell timber is an important one for you, the forest landowner. Whether or not the sale is a successful venture depends upon how well you do at marketing your timber. The term marketing is used to emphasize that a successful sale is the result of an entire process — from planning through sale inspection. To help achieve success, you must take an active role in the entire marketing process. This doesn't mean that you must personally handle every detail, but you should at least have an agent who can do these things for you.

Marketing timber instead of just selling it means that you are in control of the entire process and know what to expect. If you are contemplating selling some timber or if you are approached with an offer to buy some of your timber, don't jump too quickly. The buyer may, or may not, be offering you a fair price. Every forester knows several examples involving individuals who sold their "worthless" timber only to find out later that its true value was several times greater than what they received. Occasionally this results from the need for a quick sale, but more likely a landowner lacks information and marketing knowledge. Taking time to find out what you have to sell, and then choosing the appropriate marketing method, usually results in more income for the seller. In fact, there are several important questions you should ask if you're thinking about selling timber:

- Why do I want to market timber from my woodlot?
- What do I expect from my timber sale?
- How much can I expect from my timber sale?

- What kind of timber and how much of it do I have?
- What are the methods for marketing timber?
- How do I market timber for best results?

### Why Market Timber?

Your decision to sell or not sell is best made as part of a **management plan** for your woods. How trees are cut from your woodlot helps determine which species will grow after a harvest. So, before marketing timber decide what you want to do with your woods. This involves determining both short-range and long-range goals. In the short run it's rather easy to decide what you want, but knowing what you want 10, 20 or 40 years from now is much harder to visualize. The important point to remember is that short-term goals should be viewed as individual steps in accomplishing your long-range objectives. Harvesting and marketing mature timber are important tools for achieving these objectives. Planning is a vital part of the process, so you should prepare a management plan, either by yourself or preferably with the help of a professional forester.

### What To Expect

Having a timber sale will change your woods. In addition to the income from the timber sale you probably have other objectives you want to meet. How the sale is carried out determines future wildlife habitat, timber values, access, scenic beauty and other qualities of your woods. Each stand of timber is a unique situation and itemizing special considerations is an important step that you and your forester should discuss in detail. That way you can ensure that you will meet your objectives as completely as possible.

Knowing what to expect and knowing what you want are separate, but related, aspects that are essential to a successful timber sale.

Unfortunately, many landowners have never seen an active harvesting operation; so, when the timber has been cut, they're often in a state of shock. Therefore, it is important that you and your forester visit an active logging job or one that has just been completed. Then, visit a sale that occurred a few years ago. This will give you a better idea of what timber harvesting entails, and with your forester along you'll have someone to help explain what you see.

Remember, operating heavy equipment in your timber stand is bound to have an impact on the site. To give you "top dollar," the logger wants to operate as efficiently as possible to minimize harvesting costs. Usually this means heavy reliance on mechanization which may lead to results you did not expect. Therefore, it is important to understand what to expect and to realize that obtaining exactly the results you want may reduce how much a buyer is willing to pay for your timber. However, by following our suggestions you may obtain top value from the timber sale — the highest combination of dollar values plus non-dollar values. If loggers know all of your special requirements at the start, many times they can work them in without additional costs to you. Even if there is a small cost, your satisfaction is the most important consideration.

It is impossible to prepare a list that would cover all considerations you would talk about with your forester and then the logger, but a few examples illustrate the importance of this phase. Once you have decided to market some timber you should:

- Plan road systems, stream crossings and the location of log landings (cleared places where products are loaded onto trucks) to enhance or limit access, protect stream flow and fish habitat.
- Decide if roads and landings will be left as is after the sale or if they will be seeded or planted to vegetation.
- Decide which crop fields or other areas of your property need protection during logging.
- Decide whether trash (oil cans, broken hoses, pieces of cable, etc.) should be removed from the site after logging.
- Consider the harvest's timing taking into account if an area is wet during part of the year or if there are times you do not want activity in your woods.
- Decide on tree top disposal or whether you want the tops for firewood.

- Decide whether any trees will be reserved for wildlife, aesthetic or personal reasons.
- Determine if any fences (particularly property-line fences) will be disrupted by the logging operation, and how any problems and repairs will be handled.
- Plan for livestock control during logging if a problem might arise.
- And the list goes on...

## How Much To Expect From Your Sale

What a buyer pays for your timber depends upon many conditions, some of which are under your control and some of which are not. Every buyer probably will offer a different price for your trees because timber producers have different markets for the products, different harvesting equipment, different hauling distances and, therefore, different costs. Also, the species, quality and quantity of your salable trees will determine the price you receive.

Volume per acre is an important ingredient in a timber sale, but so is total volume for sale. It's expensive for loggers to frequently move their operation for small tracts of timber. The greater the total volume harvested, the more economical it is for the logger to move equipment. And, the lower the harvesting cost per unit of volume removed, the higher the potential price a landowner can expect to receive for stumpage. With proper planning you might be able to locate a neighbor who would also like to sell some timber. In this way, the total volume might be increased to attract more bidders and to increase the price that is offered.

Another thing to keep in mind is that demand for timber fluctuates over time. Sometimes there is a strong demand for certain species or certain sizes; other times the market is depressed for the same material. Therefore, in the planning process, marketing flexibility is an important consideration. Unlike most other crops, you can often store timber on the stump until the market improves. It's critical to sell when the market is strong. Don't let a short-term need for cash dominate your long-range objectives for your timberland. In order to be a satisfied landowner, know what to expect and know what you want.

## What Do You Have to Market?

To learn what you have for sale, you need an inventory of your woodlot to obtain the board foot or cord volume of your timber. An inventory showing volumes by species, size, and quality helps you decide which

trees to sell and when to sell them. You can learn to inventory your woods, measuring the trees that are ready to sell, or you can employ a forester to do the work. Unless you are experienced with forest inventory procedures, it is recommended that you seek a forester's help.

You can learn about measuring trees and forest products in:

- "Wisconsin Woodlands: Measuring Trees and Estimating Volume," G3332, available for \$.30 from Agricultural Bulletin, Rm. 245, 30 North Murray Street, Madison, WI 53715, (608) 262-3346.
- "Sampling and Measuring Timber in the Private Woodland," CD-FO-3025, available for \$.50 from Minnesota Extension Service, Distribution Center, University of Minnesota, 3 Coffey Hall, 1420 Eckles Ave., St. Paul, MN 55108, (612) 625-8173.
- "How Much Lumber in that Tree?" E0461, available for \$.10 from Bulletin Office, ANR Information Services, Michigan State University, 10 Agriculture Hall, East Lansing, MI 48824, (517) 355-0240.

If the inventory shows enough timber is ready for sale, a forester can measure, tally, and mark it. This is when the management plan you and your forester developed will help; the management plan will describe how you want harvests to be made. For example, if you have 30 acres of aspen ready for harvest, but it is the only woods you have, your management plan may indicate part of the woodlot will be harvested now and other parts harvested at later dates.

With your forester's help, estimate the value of the marked timber. This isn't an exact process since timber prices are negotiated and may vary widely. However, it's important that you have some idea of timber values so you'll have a basis for accepting or rejecting the offers received. You can start by reviewing published price reports that are often available from your forester or cooperative extension office. Another source of price information would be the local mills themselves; contact a few and find out what they are typically paying for the timber you have to sell.

## Methods Of Marketing Timber

Private woodland owners can choose to harvest their own timber and sell the cut product (e.g. veneer and sawlogs, pulpwood, post, poles, etc.) or sell the trees as they stand and allow the buyer to cut and haul them away. This latter method is referred to as selling stumpage.

## Harvesting Your Own Timber

A woodland owner who cuts and delivers logs or other products roadside or to the mill may substantially increase profits from the sale. Such an operation, however, should only be undertaken by someone with experience. Logging requires special skills and knowledge and there are substantial risks involved. Logging is hard, dangerous work. In addition to the personal risks, engaging in logging may alter insurance coverage. Worker's compensation and other state and federal employment requirements are particularly strict in the logging industry.

Some types of logging may require special equipment; attempting to log with some agricultural equipment could result in extensive damage to the equipment. Logging an area often takes longer than you initially estimate and may interfere with your other activities and responsibilities. Furthermore, improper cutting, handling or transporting of high-value logs can destroy a great deal of their value. For this last reason the harvesting of high value species, such as black walnut trees containing veneer-quality logs, should always be left to the buyer.

A discussion of proper techniques of cutting, handling and transporting timber products is beyond the scope of this publication. If you have the necessary time, skills and experience for harvesting and transporting the products, keep the following points in mind:

- Have a market for your product before you invest the time and money necessary to harvest it. Have a written contract with the buyer. Don't get stuck with a product to sell without a buyer.
- Know your buyer's specifications and requirements (e.g. size, volume, grade or number that will be acceptable in a given time, etc.)
- Know your legal responsibilities for such things as worker's compensation, minimum wage, social security, state and federal income tax, O.S.H.A. requirements, etc. This is particularly important if you employ other people.
- Use the proper equipment.
- Observe all safety precautions and procedures.

## Selling Stumpage

Most private woodland owners sell their timber as stumpage. Stumpage sales are of two types:

- Lump-Sum Sales: This is a timber sale in which a single payment (the lump-sum) is made to the seller

for the trees designated for sale. It is the easier of the two types of sales to administer, but under current Internal Revenue Service rules has some tax disadvantages for woodland owners considering more than two or three timber sales in their lifetimes.

- **Sale-By-Unit** (Also called **Sale-By-Piece**, **Sale-By-Scale**, or **Pay-As-Cut**): This is a timber sale in which the seller is paid a certain amount for each unit of product cut (e.g. so many dollars per 1000 board feet, per cord, etc.) This type of sale requires someone to measure the products harvested. Foresters call this scaling. The person who measures may be the landowner, a consulting forester, the buyer (if the seller has complete confidence in this person) or a receiving mill. The questions of who will provide an accurate accounting of production and how, when and where the scaling will be done make this type of sale more difficult to administer than the lump-sum sale. However, under current Internal Revenue Service regulations, this type of sale (which the IRS refers to as "disposal with economic interest retained") has definite tax advantages over lump-sum sales for landowners contemplating more than two or three timber sales in their lifetime.

In both lump-sum and sale-by-unit stumpage sales the sale price and buyer are usually determined one of two ways:

- **Oral Bid or Negotiations.** This is a sale in which the seller or seller's agent engages in verbal bidding or negotiations with one or more buyers until an acceptable sale price is obtained. While this type of procedure is fairly quick and sometimes produces a high sale price, it is not the type of sale someone should engage in who is unfamiliar with timber markets and the quality and value of the timber to be sold. In short, unless the seller is extremely well informed, it is best to leave the oral timber sales to foresters and timber dealers.
- **Written Sealed Bids:** This is a sale in which potential buyers are informed about the sale and given a period of time (usually 4-6 weeks) to inspect the timber and submit written sealed bids. At a specified time and place the bids are opened and the buyer selected. In most situations, this form of sale produces the most desirable results for private woodland owners.

## What Are The Steps In Marketing?

**First**, using a management map made by the forester, help plan the location of landings, haul roads and skid trails. Mark these in the woods, for you or the

buyer to build. Haul roads are for trucks; skid trails are for skidders and forwarders (machines that drag or transport products from where trees were cut to a landing). You can locate haul roads and skid trails so you can use them between harvests for timber stand improvement, firewood removal, cross country skiing or hiking.

Because locating landings and roads is critical to a logger, your planning should include last minute flexibility. If you stand firm on where the roads should go, some potential buyers may turn away. However, if you're willing to discuss landing and road location with the logger and compromise a little, things will probably go smoother for both parties. Since permanent access is important, it may be desirable to take less for your timber and have the logger build the roads for your continued use.

**Second**, learn about the possible income tax consequences of your timber sale. The lump-sum sale of stumpage, which normally produces the most income, may result in your paying ordinary income tax on the entire sale proceeds. If the timber is viewed as a capital asset there will be no problem in claiming capital gains tax treatment. However, if the IRS views you as a dealer in timber who is making frequent sales, capital gains treatment would probably not be allowed. There are some options that can be used to help insure eligibility for capital gains taxation.

If you have questions about possible tax treatment of your timber sale, make sure you consult with your forester and tax accountant before making the sale. Income tax laws affecting timber growers have changed recently and may change again in the future. Therefore, it is important to obtain the latest information before selling. You can learn about treatment of income from timber sales in:

- "Wisconsin Woodlands: Income Tax Considerations for Forestland Owners," G3298, available for \$.20 from Agricultural Bulletin, Rm. 245, 30 North Murray Street, Madison, WI 53715, (608) 262-3346.
- "Minimizing Federal Income Tax for Forest Landowners," North Central Regional Publications, NCR 343, available for \$.50 from ANR Information Services, Michigan State University, 10 Agriculture Hall, East Lansing, MI 48824.
- "Timber Tax Management for Tree Farmers," available for \$15 from the American Forest Council, 1250 Connecticut Ave., N.W., Suite 320, Washington, DC 20036.
- "Forest Owners' Guide to Timber Investments, The Federal Income Tax, and Tax Recordkeeping,"

USDA Agr. Handbook No. 681 (order No. 001-000-4540-7), available for \$5 from Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402-9325.

**Third,** prepare and send a sale notice to potential buyers. This is the most effective way of notifying potential buyers of your timber sale. You can get the names of reputable timber buyers operating in your area who would be interested in the type of timber you have to sell from DNR or consulting foresters. A timber sale notice should include:

- Name and address of the seller.
- A map and/or description of the area to be harvested (including access and your proposed woods road layout).
- A listing of volumes of trees (by species, diameter class, product class and grade if appropriate) included in the sale.
- Special considerations such as ownership of the tops, location of roads or trails, and protection of crop fields and fences. Recall that excessive restrictions may cause a reduced bid or loss of interest in the sale.
- The times when potential buyers can inspect the trees and sale area.
- A copy of the timber sale contract that will be used.
- The method of bidding and type of sale: sealed bid, lump-sum, etc.
- How payment is to be made. On lump-sum sales full payment (100%) prior to the start of any harvesting activity is desirable. When this is not possible, a definite timetable for payment should be negotiated calling for specific payments (25%, 50%, etc.) at specified dates. On sale-by-unit sales, a definite cutting and payment timetable needs to be negotiated with the buyer and the seller's intent to do so stated in the notice.
- The statement that you reserve the right to refuse all bids in case none offer an adequate price.
- Space for the buyers to state their bids.
- A closing date for receipt of bids.
- The date, time and location for opening the bids.
- Whether or not a specified down payment must accompany the bid (usually 10%).
- The requirement of a performance bond (usually 10% of the sale price).

One side of the bidding coin is the maximum price that buyers want to pay. They, of course, want to pay a price which will leave the largest profit margin possible after costs. The other side of the coin is that you, too, want the largest margin possible above your costs for taxes, management and opportunities foregone (income you would have made by investing in something other than timber management). The best way to receive the highest price for your timber is to have more than one buyer bid on your salable stumpage or logs. Encourage competitive bidding!

**Fourth,** on the date and at the time and place specified, open the bids and select the buyer. If one or more bids exceed the minimum amount you want to accept, select your buyer on the basis of size of bid and on reputation. Ask all bidders for the names of landowners from whose land they have harvested trees. Exercise caution in selecting new operators or operators who have not previously logged in your area. Only experienced and careful buyers should be chosen for timber stand improvement, or a selection harvest, in which valuable trees will be left standing.

**Fifth,** complete a timber sale contract with the successful bidder. The successful buyer should make a deposit as a performance bond which is held (preferably in escrow) until the sale is satisfactorily completed under the terms of the contract. Total payment for the timber may be made before harvesting begins or provisions may be made for partial payments as the sale progresses. Payments should be in some assured form such as a bank draft. A suggested sample sales contract is included with this publication. The contract is only a sample and may need to be modified to suit your particular situation. Work with your attorney and forester to ensure a proper contract.

**Sixth,** several times during the harvest of your timber you, your agent or your forester should visit your woodlot to be sure the buyer is complying with the sales contract requirements. It is important that you ask questions and show interest in the operation. A good logging contractor will welcome your questions because they lessen the chance of a misunderstanding.

Use good judgement and discretion when checking the harvesting operation. Deal directly with the buyer or the buyer's designated representative if you have any concerns. Do not complain or make suggestions to other individuals on the job.

When inspecting the harvesting operation, stay clear of all machinery and wear appropriate safety gear. Because the buyer is concerned about the liability of all

persons on the site, respect the buyer's directions during your inspection visits.

**Seventh**, plan post-harvest activities:

- Harvesting firewood from tops, if the buyer hasn't purchased them.
- Improving the timber stand.
- Preparing the site for natural seeding.
- Replanting (if necessary).
- Erecting gates if access roads have been built.
- Recording sale information in your accounting ledger.

## A Final Word

Stumpage is a somewhat unusual commodity in that it has no exact or going price. Instead, the selling price is whatever the buyer and seller agree to and is influenced by many factors including tree species, size, quality, distance to market, accessibility, difficulty of the logging operation, market conditions, the buyer's financial condition, and differences between buyers in their ability to use the tree or logs.

Due to these factors, the relationship between buyer and seller on each timber sale is unique. Different buyers may offer substantially different prices for the same timber depending on their own particular uses and markets. To receive the highest value, contact several potential buyers when timber is for sale. A professional forester or timber buyer can estimate the minimum acceptance value or the expected value of a particular timber sale. In many cases some bids may substantially exceed this estimate. As has been suggested, timber sales from private woodlands

should be made by sealed bid with potential buyers informed about the sale. **Don't be too anxious to accept the first offer.**

Well-planned timber sales are an important step in woodland management. They are your main tool for ensuring a vegetative cover that is most suitable for the use and enjoyment of your woods. If you believe some of your timber is ready to sell, contact a DNR, consulting or industrial forester. The cooperative extension office in your county has other bulletins on forest management and many have lists of DNR, consulting and industrial foresters.

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**Authors:** A. Jeff Martin is a professor of forestry in the College of Agricultural and Life Sciences, University of Wisconsin-Madison, and extension forester with Cooperative Extension, University of Wisconsin-Extension. Karen Potter-Witter is assistant professor and extension specialist in the Department of Forestry, Michigan State University. Jerry Lapidakis is a private forestry specialist with the Wisconsin Department of Natural Resources.

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