Marketing Forest Products

Developing a Marketing Strategy for Woodland Owners: Initial Considerations

Oregon State University Extension Service
Marketing is more than just the sale of a product or service from your woodland. The essence of marketing is an attitude, a state of mind, that regards any sale not as an end objective, but as a means toward accomplishing long-range management goals. Marketing is an organized, commonsense strategy that includes sales as a management tool guided by a management plan.

This publication emphasizes integrating and harmonizing sales with your woodland goals. Because owner goals vary and each woodland is different, no single strategy fills all potential sale situations. This publication presents and discusses elements to consider when developing a customized strategy for your particular needs.

To develop your strategy, you must decide whether or not a sale is compatible with your goals. Next, study the market to determine what you might sell, as well as when and how you might initiate a sale. Finally, review provisions to include in a contract if you decide to have someone else handle a sale for you.

**Deciding whether to sell products**

Selling woodland products is not an isolated activity, but one that is linked to the entire range of woodland ownership responsibilities. Managing your woodland for commercial sales may be only one of your objectives; it may or may not fit your other purposes.

You may decide against a timber sale that would alter a favorite view or destroy a family picnic spot. Similarly, permitting camping or other recreational use of your property for a fee, or leasing hunting or fishing rights, might impair your flexibility to schedule timber sales—which means such nontimber uses would be impractical.

Whether to sell timber is up to you; other uses of your woodland may be more important. Do understand, however, that removing timber according to a carefully drawn plan can be a worthwhile management tool. It can improve the appearance and productivity of your property, increase its value, make it more suitable for other purposes, and provide cash income for reinvestment in the woodland or to meet other needs (payment of taxes, for example).

Sales, if not your primary objective, needn't conflict with other long-range goals—if you plan each sale carefully. To do so requires that you consciously think through your objectives and define when and how you might best carry out a sale.


**Legal considerations**

Legal issues may arise when you sell or otherwise offer woodland products for financial gain (such as by leasing hunting rights). Certain regulations relate directly to forest land ownership and management—land-use rules and restrictions and the Oregon Forest Practices Act.

If you hire employees, there are regulations covering workers' compensation, liability, minimum wage, and social security. The requirements for your situation depend on who does the work—you, your employee, or a hired contractor. If you hire an independent contractor, you can usually transfer compliance responsibility to that individual by a properly drawn contract.

Legal considerations also include taxes, such as income and capital-gains, estate, inheritance, and timber yield taxes. EC 1136, *Forest Property Taxation in Western Oregon*, discusses timber yield taxes (see “For further reading,” page 8).

A timber sale could have immediate or deferred tax consequences. You expect to pay yield or estimated quarterly income taxes soon after a sale. Improved growth of more valuable species, which increases the worth of your woodland and its eventual estate tax liability (unless the property is incorporated), will not show up until long afterwards.

You must be aware of and give careful attention to the tax implications of management activities. Use professional counsel when in doubt.
Market demand
Market conditions vary for different products. (Saw logs might not be in strong demand, but there may be a good local market for car stakes or hop poles.) Keeping tabs on available markets, together with knowledge of the product inventory on your woodland, will enable you to make appropriate timing decisions.

If you lack a market for one product, consider alternative products and markets. If you have a mixture of species or tree sizes on your land, your cash return from a sale might be greater if you sell a single species or size, rather than cut all the trees on a given area.

Labor cost
Small or scattered volumes may be too costly to log if you hire a contractor. Don’t overlook the possibility of doing the job yourself. You should realize, though, that you might not earn a going wage for your efforts. However, the mental and emotional satisfaction of working in your woods, being outdoors, improving the appearance and value of your property, having time to think, or whatever, may be worth your time and effort.

Distance to market
A buyer’s location also determines the marketability of your woodland products. Whether you contract the hauling or do it yourself, transportation cost is much higher now than it was a few years ago.

If you can do your own hauling rather than contracting it, you may be able to save money and reach distant buyers more economically than a contractor. By enlarging your
market alternatives, you can obtain a larger number of bids and perhaps higher prices.

**Prices and specifications**

Implicit in the matter of timing, local market conditions, and the sale of alternative products is the importance of knowing prices.

Each buyer has specifications that you must comply with if you expect to get top dollar for your products. Knowing or at least being aware of these specifications will help you obtain the best possible price, especially if you plan to cut and deliver your own products. Obtain this information directly from potential buyers whenever you plan a sale.

You'll find a discussion of issues that concern buyers in EC 1127, *Measuring Timber Products Harvested From Your Woodland* (see “For further reading,” page 8).

**Competitive bids**

Usually, the more potential buyers there are for the product you want to sell, and the greater the competition among them, the higher the price you can expect to obtain.

This is why it is wise for you to know who is buying what and to obtain more than one bid whenever possible.

**How to sell products**

When your management plan calls for a sale, you must decide whether a do-it-yourself approach is appropriate or whether to hire a logger to do the job. Actually, the decision isn't likely to be that clear; usually, you'll have a number of alternatives.

You might plan a sale, lay it out, and mark the trees you want cut. You could mark approximate road locations but hire an independent logger to build them, do the logging, and haul the logs to a mill you've selected. Or you could do the falling and yarding yourself and contract the hauling. Another possibility is turning over the entire operation, from planning and layout to completion of the sale, to a consultant.

These are only suggestions of potential combinations and choices. You must decide what is best for your situation.

There's help available to you when making this decision (see EC 1120, *Technical Assistance in Forestry*, “For further reading,” page 8).

Help includes information and education to guide you from start to finish in carrying out a sale, technical assistance that gives on-the-ground, show-me aid in doing parts of the job, and consultants who will take over the entire operation for you.
Kinds of sales

Standing timber sales fall into one of two basic types according to method of payment: unit sales or gross sales.

Unit sales tie payment directly to the volume of timber removed. Payment is based on an agreed price per unit of measure (cords, tons, thousand board feet, piece) and is made in installments as cutting progresses. Only those logs actually hauled from your property are paid for; those left on the ground are not. Unit sales are sometimes called by-the-unit or buyer-pays-as-he-cuts sales.

In gross sales, all timber on a tract or designated portion of a tract that meets the merchantability standards agreed on is sold for a fixed sum regardless of volume. Such sales are often called lump-sum sales.

Both methods of selling stumpage have their strengths and weaknesses. Either one may result in an unsatisfactory sale if you do not understand how the advantages of each method apply to your situation.

Unit sales

Most older forestry textbooks describe unit sales as the only safe and fair way to sell standing timber. Some landowners prefer this method. As a seller, you are virtually assured that profits from a unit sale will qualify for capital gains.

Another advantage of the unit sale is that you may be able to interest more potential buyers than you could for a gross sale. Attracting more buyers is important when the total sale volume is either markedly large or small, when there are difficult or unusual access problems that might affect lump-sum bids, or when few individual buyers in the area are able to finance a single, large, lump-sum purchase.

Unit sales contracts must contain detailed provisions about volume measurement, payment arrangements, and cutting practices. Volume measurement and payment can sometimes lead to misunderstandings and disputes, and there is a tendency in unit sales for "high grading" (a practice in which the buyer cuts only the best timber or the easiest portion of the tract).

Trees may be improperly bucked, left in the woods, hauled to the wrong place, or improperly scaled. Payments can be inaccurate, credited to the wrong account, or lost entirely. Close supervision while cutting is in progress is necessary to protect your interest.

Gross sales

They’re usually better for you, provided you estimate the volume of merchantable timber and calculate its fair market value before selling. Without these preliminary calculations, you have no basis for judging whether an offer is reasonable.

Legal documents for gross sales can be simple; and they can eliminate most negotiations and complex arrangements over volume determination and payment methods. They also help relieve the fear that some timber might not be paid for, because the buyer usually is motivated to remove all merchantable material to get the most for the money.

Since title to the product passes immediately to the buyer, you avoid the risk of loss from fire, insects, diseases, wind, and theft.
want done. Moreover, if a logging operation is involved, a contract can and should assure that your property will be left in an improved condition for future timber growth.

Although sample contracts can be helpful, each sale usually requires special provisions. You can often obtain sample contracts from Extension forestry agents, service foresters, consultants, woodland associations, and other owners.

Because contracts vary in their language and provisions, presenting a single example here would not be particularly helpful. The box on page 7 indicates the topics that most contracts cover.

Recent court decisions suggest that favorable capital gains treatment for lump-sum (gross) sales may not be allowed if a landowner makes numerous sizeable sales. The Internal Revenue Service has never been specific on the factors involved in this determination.

One way around this uncertainty is to contract with a logger to cut your timber—but to sell the logs yourself to a mill or other buyer. By selling your timber as logs, poles, or some other product, your profits can qualify as long-term capital gains. Only 40% of the gain is taxed if you owned the timber for more than a year.

Contracts or sale agreements

When selling products, unless you intend to do the entire job yourself, draft a written contract or agreement setting forth both parties’ responsibilities, so there are no misunderstandings about what you
Common contract provisions

Contracting parties
Names, addresses

Land description
Legal description
Sketch map
Boundary or cutting lines
Who is responsible for additional surveying?
Boundaries marked with flagging, paint

Products being sold
Guarantee of timber ownership
Type and amount of timber or product for sale
Identification of trees to be cut
Diameter limits
Species
Marking system
Dead timber

Selling prices
Lump-sum sale
Unit sale
Price/unit for each grade
Units of measure (Scribner, linear feet, tons, cords)
Scaling rules, place, record (duplicate scale sheets)

Payment
How, when, to whom?
When does title pass?
Severance tax
Who pays?

Sales performance
Guarantee of faithful performance of contract provisions
Performance or surety bond
Cash deposit
Deposit amount/unit cut
Liability insurance (bodily injury and other damage)

Time limit
Effective date of sale
Termination date
Accomplishment date (partial completion)
Provisions for altering time limit or terms, if applicable
Termination clause for failure to comply and reversionary rights
Title to remaining timber after termination date or end of agreement

Harvesting and protection requirements
(legal requirements)
Fire protection
Slash liability
Cutting permits
Responsibility for protection from legal claims and labor liens

Logging requirements
Method of cutting
Merchantability
Stump height
Scaling rules
Log rule
Diameter measurements
Length to even foot
Trim allowance
Defect deduction
Penalty payments
Merchantable material left in woods
Damage to residual stand
Unauthorized removal
Road access
Roads to be used and guarantee of access
Ownership of improvements and reimbursements
Maintenance
Standards for new roads
Water and soil requirements
Logging equipment
Replacement costs for property damage

Special requirements
Subcontracting
Lower price for improvements
Use of property or roads by third parties
Board of arbiters in case of disagreement

Signature
Buyer and seller, or their representatives
Date signed
Summary

Developing a marketing strategy is not simple. There are various issues to think about and include in a successful strategy. This publication brings these to your attention, because only you, or a professional working with you, can develop a plan to fit your particular property, goals, and needs. Here are key factors to consider:

- Decide whether selling products fits your management scheme.
- Regard a sale as a management tool, designed not as an end in itself, but as a means for accomplishing your long-range management objectives.
- Study issues such as legal restrictions and consequences, timing, amount of available products, market demands and prices, and number and location of potential buyers. Also, determine how to accomplish a sale in a way that adequately protects your concerns.
- Of crucial importance, with respect to this last point, is the integrity of the buyer you select. Talk with other woodland owners who have dealt with your prospective buyer.
- Although dealing effectively with all these elements may seem complicated, you can call on a number of sources to assist you in devising a workable strategy. As with any endeavor, once you’ve done it, it won’t appear so difficult the next time around.

For further reading

Order OSU Extension Service publications from the Bulletin Mailing Office, OSU, Corvallis 97331; enclose the amounts indicated.


The Oregon State University Extension Service provides education and information based on timely research to help Oregonians solve problems and develop skills related to youth, family, community, farm, forest, energy, and marine resources.

Extension’s forestry program improves Oregonians’ knowledge of forest resources and their options for expanding benefits from these resources. This educational program assists forest owners, managers, processors, and users in understanding small woodland production and management and use of all forest lands. Priority subjects are reforestation, growth, management, harvesting, processing and use of wood, protection of soil and water, and other multiple uses and values.

This publication was prepared by Robert O. McMahon, associate professor of forest products economics, Oregon State University. It is one of more than 50 prepared by the Oregon State University Extension Service specifically for owners and managers of private, nonindustrial woodlands. Together, these publications make up what we call the *Woodland Workbook*. For information about how to order and for a current list of titles and prices, write Bulletin Mailing Office, OSU, Corvallis 97331, or inquire at the office of the Oregon State University Extension Service that serves your county.

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