Cattle Business in Mississippi – May 2013
“Beef Production Strategies” article

Prepping for Private Treaty

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Private treaty sales are sales in which the cattle owner negotiates directly with prospective buyers. Like other forms of cattle marketing, direct sales have their pros and cons. Producers considering using private treaty as a marketing channel would be wise to do some advance preparation before implementation to achieve the best results.

Plusses to Private Treaty
Advantages to private treaty sales are numerous. The seller has significant control over the marketing process. Sellers can point out positive aspects of livestock and talk up the outstanding features of their animals. Over time private treaty sales help producers to build the reputations of their operations. Buyers not only view the livestock, but they also get to see the facilities and other aspects of the operation to get a more complete image of the operation. Direct conversations allow sellers and buyers to develop valuable business relationships.

Private treaty sales encourage marketing innovation. Because these types of sales lack the restraints of many other marketing channels, with the seller having more control over the process, sellers are free to try novel approaches to convincing buyers to purchase cattle. Terms and conditions of sale depend upon the agreement of both parties. The buyer can negotiate certain specifications, and the seller has the option of passing up a customer who is not willing to agree to certain terms in the hopes of a later buyer doing so. The seller has even more leverage in this process when the product is differentiated and in high demand. Under these circumstances, premiums can be realized. Premiums can be worth paying due to other marketing efficiencies helping to offset transaction costs. For example, marketing commissions can be excluded from private treaty sales.

From the buyer perspective, private treaty sales allow the acquisition of cattle directly from a farm. Farm-fresh cattle may undergo less stress and disease exposure than cattle shipped to third-party businesses as part of the marketing process. Also, the buyer can ask questions of the seller directly to learn about the herd health, nutrition, and other management practices used with a group of cattle so that better decisions can be made on how to transition and manage the cattle on the buyer’s operation after the sale.

The buyer and seller can use information from their discussions to better arrive at a fair market price, because more information is potentially transferred with the cattle. Although other marketing channels may provide commonly requested information about cattle for sale, private treaty sales allow for direct conversations between the seller and buyer with the opportunity to exchange additional and very specific information about the cattle. Basically, the buyer can ask detailed questions about the cattle, and the seller has a chance to share detailed information to add value to the cattle and address any buyer concerns.

Drawbacks to Private Treaty
Private treaty sales are not for everyone. For best results, people entering into private treaty sales need to have very good marketing knowledge. They should know the current market conditions and prices and qualities of competing products. With this information, they then need be able to determine fair market values for the cattle for sale by private treaty. This requires having a detailed knowledge of cattle genetics, conformation, and disposition for each animal offered for sale. Management program information should be readily available for buyers to assess.

The seller should be prepared to answer any relevant questions the buyer may ask during the negotiation process as well as after the sale. The seller must decide how to handle buyer concerns well after the sale. Some concerns may be reasonable and legitimate, but the seller must also be ready to deal with unreasonable claims seeking to take advantage of the seller.

Besides product qualities, both parties in private treaty sales should be ready to discuss prices. The buyer must have a good idea of what they want and how they value various traits or features of cattle. The seller must decide early in the marketing process what prices to target for each animal of group of animals for sale. Any special considerations such as discounts for bulk purchases must also be factored into pricing decisions. How delivery of cattle and payment will be handled are other items that must be well defined. All of this preparation takes careful thought and time on the parts of both the seller and the buyer.

Unprepared sellers and buyers run the risk of selling or buying cattle that are either undervalued or overvalued. Because the results of private treaty sales are not publically reported on a wide scale, there are not readily available current market reports on which to compare negotiations to like transactions in the marketplace. Word of mouth, general market conditions, and sale reports from other marketing channels must be used to determine fair market values.

Even with good information during the negotiation, a poor negotiator may not do well with private treaty sales. These types of sales involve generally more haggling than other marketing methods. There are many books on the art of negotiation for anyone interested in getting tips on how to improve their negotiation skills.

There are also some risks associated with private treaty sales. The seller assumes the risk of payment collection. Cattle theft is not unheard of in modern times. In fact, challenging economic conditions and relatively high cattle prices make it more tempting for some to engage in practices such as bouncing checks or providing other false or non-payment for cattle. If cattle are already transported off of the seller’s farm when payment concerns are recognized, then it makes it that much more difficult to prevent an economic loss to the seller. Reputation of the other party should be reviewed as best possible prior to money changing hands, and any other safeguards to protect in bad dealings need to be done on the front end of the transaction. In addition, both sellers and buyers should document these transactions in enough detail for tax-reporting purposes to comply with tax authority regulations and also for financial record review for decision-making purposes.

Attracting adequate buyer competition is another task that falls on the shoulders of the prospective seller when using private treaty. Print advertisements, word of mouth, internet marketing media, and other promotional efforts may need to be undertaken to attract customers and capture their attention to the point that it results in sales. Buyer contact lists should be maintained for follow up with customers in the hopes of generating repeat business and positive word of mouth about their experiences with the operation.

Preparation can Lead to Profit

All in all, private treaty marketing is a unique marketing channel with tremendous potential for desirable transactions for the marketers who are willing to invest the necessary effort into making it a profitable aspect of a cattle marketing program. Cattle buyers may also do well with private treaty purchases will similar advance planning and learning before visiting farms and starting negotiations. Profitability of these transactions depends very much upon satisfactory preparation for each party involved. For more information about beef cattle production, contact an office of the Mississippi State University Extension Service or visit *msucares.com/livestock/beef*.