



## TALKING TIMBER

### THE "SCIENCE" OF BUYING AND SELLING

*Timber pricing has a 'wood' science aspect – economics, psychology and sociology all playing a part in the equation. So is the timber trade capable, by application of those sciences, of change for the better? Andrew True, a recently retired trader himself, says yes*



**Achieving the price in today's highly competitive wood market that keeps everyone in the chain "happy" is not easy, but the overall objective must be to show a profit at each stage of the transaction.**

Other factors come into play which may mean a profit is not achieved, such as reducing high stock levels by selling at a loss, or moving on items that won't sell, or looking at long term gains while making a short term loss.

But what is a loss? There are different market perspectives on this. The financial director or accountant will definitely consider a loss to be one where the actual selling price is below the original buying price. But a true trader/trading company should look at a loss as being a price below the current market selling price.

What is the current market price? This is where the buyer and seller agree a price, at a specific time. For a timber commodity item, however, there will certainly be a range, say plus/minus £5/m<sup>3</sup>, not one definitive price. The keen trader will always try to achieve the higher level, in order to maximize returns. However, for an item like carcassing, there will be a price range for UK and Irish productions. Then another (higher) price range for imported European carcassing. So, the actual variation in market price could be £25 – £35/m<sup>3</sup>.

*“When importers had mills, a real option was to convert distressed items into something different. Today bigger stockists only seem to have price as a mechanism”*

It is always easy to reduce and obtain the price, but very much harder to increase it. The UK is a market where the “lowest common denominator” approach appears to be a key determining factor in setting the level. Let's be truthful, it is always easier to sell as the cheapest!

But is there a real need to reduce prices in our market, especially when the customers/end users have become accustomed to paying the current market price? Instead of

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passing on sawmill price reductions, or reductions caused by currency fluctuations, for example, might it not be better to use the opportunity to build up funds in order to cushion the next price increase? That could help soften the blow of future rises for the customer and, at the same time, slowly increase price rather than make big jumps.

Perhaps more care should be taken in the strategic process of how to reduce our stocks or sell slow moving items.

In former times, when many importers had in-house sawmills, a real option was to convert the “distressed” item into something different, but today this option is only available to a small number of specialist buyers. Bigger stockists only seem to have price as a mechanism, apart from where pride steps in to stop it being used!

It all comes down to the laws of supply and demand (the basic economic principles). So, timber prices will always fluctuate, but should we put mechanisms in place to minimize the falls – even if the only mechanism is one of personal pride. This does fly in the face of free market forces, but it may mean that traders can ride the falls and increases in a smoother manner.

As mentioned in a previous Talking Timber article, the UK timber market is one of perfect competition with many sellers and many buyers, which means that the market dictates, but perhaps it can be influenced in a responsible way, by responsible sellers. ■

*Below: Timber – the science of buying and selling*

