

Planning a Profitable Auction

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Whether retiring, going out of business, changing to different crops or livestock, or just cutting down in size, most farmers choose auctions as a way of selling their farm animals and equipment.

Planning Can Be the Key

It's never too early to plan for a successful sale. The good management practices you use today will result in a more saleable item three months or three years from now. Remember the intangibles: The goodwill and fellowship you have built up with your neighbors and fellow farmers will be returned on sale day.

As sale day approaches, remember everyone is a potential buyer. You may want to watch the ball game Sunday afternoon, but that fellow who wanted to be shown around during the third inning just might be the contending bidder on the manure spreader and three of the bred heifers. At \$25 a bid, that's an extra \$200 in sale gross--not bad pay for the hour it took to show him around. The sports show replays will be on the evening news.

You need to decide how much (or little) you need to sell to pay off debits and service any ongoing loans like mortgage or loans on equipment that won't be sold. We see some sales advertised with just cows, some with equipment sold at a later date, and some with cows and equipment on same date. Rarely is the land sold via auction on the same date.

Work with a financial advisor early in the planning stage to ensure the sale will be as successful as possible and to have a plan for servicing any remaining loans, such as mortgage or equipment loans as well as federal and state income taxes and retirement savings.

Be Positive

Have a positive approach. You have made the right decision to sell. The local busybody down at the corner store would tell you were wrong if you had just purchased the winning lottery ticket! Attitude is everything.

Selecting a Sales Manager

1. Talk with people involved: Ask questions; make sure you understand the responsibilities, commission rates, and contracts of potential sales managers.
2. If possible, talk with others who have worked with or done business with these sales managers. Do this well in advance of signing a sales contract.
3. Ask yourself these questions: Who will do the best job for me? Who do I feel most comfortable working with?
4. Be sure to get a signed contract that you understand.

Sale Timetable

Having a profitable auction requires a considerable amount of time for planning and preparation. Planning may be easier if you work backwards--starting with the auction date and working back to today's date. There's plenty of work to fill the weeks. Here's a sample schedule for a sale.

Six to ten weeks prior to sale:

Sit down with your banker, your accountant, and your advisors and determine best time to sell, what the implications of a sale are, what alternatives are

available, and what you will do after the sale. These items should be written down and filed in a prominent place. Refer to them often and revise as sale date nears.

Five weeks prior to sale:

- Sales manager will be at farm to assemble necessary information for cataloging of cattle and advertising information. You should have a machinery and equipment list with all items to be sold, complete production and breeding information on cattle, and registration papers on registered cattle.

Four weeks prior to sale:

- Schedule TB and blood tests for interstate shipment of cattle. This should be done as early in the week as possible. Tests are good for 30 days. This allows for time to retest if necessary and for the charts to be prepared by the state health department.
- Arrange for your vet to be at the sale to chart interstate cattle, if necessary.

Three weeks prior to sale:

- Schedule last DHI test by Friday. This should allow ample mailing time for the results and for DHI transfer sheets to be returned to you.
- Arrange for caterer. Many local 4-H or volunteer groups do this to earn money.

Two weeks prior to sale:

- Make any necessary repairs to equipment or facilities: Fix that calf-pen gate that is held up by twine; replace the broken spring on the dumping station; put on the new tire you bought two months ago for the mower.
- Remove the accumulation of clutter and unsaleable items; tidy up the facilities.
- If there are any cows you will not be selling for any reason (mastitis, not bred, etc.), remove them this week.
- Arrange for a complete pregnancy exam by your vet.

One week prior to sale:

- Fitting crew will be at farm to prepare for sale.
- Clip and wash cattle.
- Wash and arrange equipment.
- Set up sale ring tent.
- Prepare necessary paper work--registrations and transfers on registered cattle, health and vaccination charges, and production and other records.

Auction Action: Items to Consider

Lesson number one: Don't plan on getting a whole lot of other work done the week before the auction.

If you think normal life gets hectic, imagine what it will be like if you decide to have an auction. About the time the sale notices appear in the paper, people start to show up at your farm like cows around a newborn bawling calf--and with about as much curiosity. The morning you were going to get the old manure spreader fixed up will be the morning all your neighbors show up to take a look at your cows. The day you start spreading that last pile of manure will be the day the auction crew wants to start washing the spreaders. As auction day gets close, there will be more people asking you more questions than you ever thought possible. Most of these will be at the same time!

Lesson number two: Don't expect to know what is going on the day of the auction.

On auction day, things will get worse! Chances are you won't know if you're on foot or horseback, though it really won't matter at that point. When you turn your back to talk to your neighbors, the auctioneer will holler at you and get your mind back on the tractor he's trying to sell.

The auctioneer will ask you the right questions at the right time, and keep you on track for the day. This is a team and you are a key component of that team.

Lesson number three: Plan on a few days to wind down after the auction. Spending some time with

your family or close friends doing something that will take your mind off the last few days is key.

It's taken a good week to get wound up for the auction, so don't expect to wind down the next day. There will still be a lot of action going on as people pick up the machinery and cows that weren't taken the day before. You may notice a feeling of sadness develop as your cows and equipment leave. Empty barns are usually depressing. Yours will be no exception. Do what needs to be done and get out. A suggestion is to not go back to the barn, or sheds, immediately following the auction. Most folks find that time with family and friends and away from the farm helps heal the stress. You've worked this farm for 20 plus years; it's like a marriage and it takes some time to heal.

Lesson Number four: Prepare to pay your income taxes well in advance of the auction and finalize them shortly after the auction; don't wait until they are due to find out how much you owe.

Tax planning can make the difference between a large gain and a little loss with your auction. A little tax planning can be very profitable. Two points to remember:

1. Principal payments are not deducted when your taxable gain is figured.
2. The capital gains on the items sold in the auction may make you liable for the Alternative Minimum Tax.

Every farm is different and has a different tax history. Talk to your Extension specialist and your tax consultant. Get their advice before the auction, while you're still in the planning stages.

Advertising Schedule

- Place a 1-page ad in a region-wide bulletin, one that covers a 50-mile range from the farm. Information is due 8 weeks prior to sale.
- Consider a 1/2-page ad in a breed magazine. Information is often due 6 weeks prior to sale.
- Also consider a 1/4-page ad in a paper that has coverage as much as 250 miles from the farm. Information is due 3 weeks prior to sale.
- Your auctioneer also has a mailing list that he will send out. This usually arrives 7 to 10 days prior to the auction.

Sample Sales Agreement

Sedgwick Commission Sales

The real or personal property listed hereon shall be placed on sale at Public Auction and sold to the highest bidder according to the provisions of this contract.

Date of sale _____ Time _____

Location of sale _____ Terms _____

Owner _____ Phone _____

Address _____

Auctioneer's commission _____ Advertising paid by _____

Owner(s)/seller(s) will provide:

- | Quantity | Description |
|----------|--|
| 125 | <ul style="list-style-type: none">- Holstein cattle, 30 registered, 95 grade plus natural additions.- Machinery and equipment as listed (2 months) prior to auction date.- All required tests and charts on cattle and registrations and transfers on registered cattle.- Care of machinery and cattle until (1 day after the sale) unless individual prior arrangements have been made.- Facilities and materials as needed (extra bedding, materials for temporary heifer pen in shed by barn).- Caterer and portable toilet. |

Sales manager will provide:

- Auctioneers; pedigree person; clerks.
- Fitting crew; sale workers and their expenses.
- Sale ring, tent, chairs, and lighting.
- Advertising and catalog preparation.
- Complete buyers list.
- Initial payment of x% of gross proceeds and complete accounting on all collected receipts within 30 days of close of sale.

I/We _____ owner(s) of the above listed real or personal property agree to have it available for sale by Public Auction on the date listed. Merchantable title to all real or personal property being sold at this sale will be provided. Changes in above contract must be agreeable with both parties.

Date

Owner(s) Signature(s)

Date

Auctioneer and Sales Manager

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Editing and design by Communication and Technology Resources, University of Vermont Extension

FS 119

Updated for PDF: April 2004

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