

Area: Agricultural Management

Job VII: Becoming Familiar with Various Purchasing Techniques

Situation:

Objectives:

1. To understand the different buying techniques.
2. To determine how to negotiate the price of a commodity.
3. To determine the price of a commodity.

Motivation:

1. Ask students if they were going to purchase some fattening livestock, how would they attempt to determine the price they would offer.

Study Guides:

1. What type of purchasing techniques should I use to acquire the commodities I wish to purchase?
2. How can I negotiate the price of a commodity?
3. How can I determine the current price of a commodity?

Reference:

The Sheepman's Production Handbook, 1977, pages 215-232.

Doane's Farm Management Guide, Chapter 13 - Marketing.

Analysis:

1. Purchasing Techniques:

A. Spot (cash) technique.

Usually used when buying directly from the farmer or rancher.

Advantages of spot purchases:

- a. The price is determined quickly.
- b. The title is transferred promptly.
- c. Marketing costs, if any, are known and paid soon after transaction.
- d. The producer receives his money quickly and is generally more satisfied with this technique.

B. Contractual Buying:

Usually used to set a price on a good if it looks like the price will go up in the future. Actual pricing under contractual buying may be determined in several ways; ranging from formula-pricing at time of delivery to pricing or payment based on units of production.

Note: This method takes good managerial decisions which will be made by utilizing records (past and present), budgets, and financial enterprise analysis.

2. Negotiating the Price:

A. Private Treaty

- a. Most common method.
- b. Deal directly with the producer.
- c. Know the source and background of the commodity.

B. Auction

Advantages:

- a. Large selection.
- b. Current market price is known.

Disadvantages:

- a. Time consuming.
- b. Competition among buyers.
- c. No control over price of commodity.

C. Offer and Acceptance

a. A method by which sellers make offers to buyers to supply given quantities of a specified product of a specific date.

b. Buyer has option of refusing or accepting the offer of the seller.

Sometimes used in a "sealed bid" arrangement.

3. Determining the Price:

A. Each buyer must establish his own guidelines and procedures to follow in deciding which method of purchasing should be used and what price is affordable and economically feasible.

B. Things to Consider:

a. An evaluation of the reported market price of the commodities to be purchased.

b. The cost of transportation from the market place.

c. The amount of shrinkage (livestock).

d. Weighing, sorting, and grading practices.

e. Availability of money to use for the purchase.

f. Cyclic and seasonal price variations.

Variation between low and high price.

Time of year that low and high prices may occur.

g. Other risks.

Follow up:

1. Visit an area sale barn or a local elevator and discuss these and other techniques with their managers.

