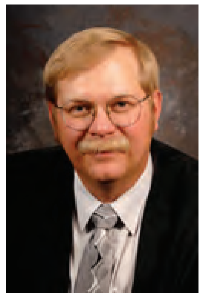
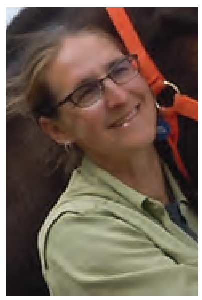
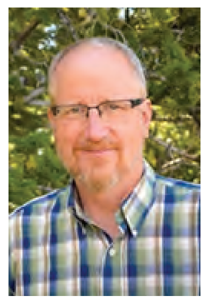
Can Producers Bargain for Better Prices? Implications from Wyoming Focus Groups

By Christopher T. Bastian, Chian Jones Ritten, Bridger Feuz, Amy M. Nagler, and Steven Smutko

ABSTRACT

Privately negotiated sales are increasingly becoming important in today's agricultural markets, but relatively little is known about agricultural managers' outcomes when bargaining for more profitable prices. A sequence of four focus groups was conducted to gather information from agricultural producers to better understand their experiences, strategies, and specific needs for developing skills in contract and price negotiation. Results indicate opportunities for education and training related to bargaining strategies focused on improving prices.



Christopher T. Bastian is Professor with the Dept. Agricultural and Applied Economics at University of Wyoming. Chian Jones Ritten is an Assistant Professor with the Dept. Agricultural and Applied Economics at University of Wyoming. Bridger Feuz is Marketing Specialist and Extension Educator with the University of Wyoming Extension Service. Amy Nagler is Assistant Research Scientist with the Dept. Agricultural and Applied Economics at the University of Wyoming. Steven Smutko is Professor and Collaborative Practice Chair with the Haub School of Environment and Natural Resources at University of Wyoming

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Introduction

Many agricultural sectors increasingly rely on privately negotiated marketing and production contracts to coordinate linkages. Marketing contracts, which govern the terms of product sale and delivery, and production contracts, which specify the production process, represent 52 percent of all livestock and 35 percent of all commodities as a share of the total value of US agricultural production (MacDonald 2015). In this market environment, producers may find themselves negotiating contracts as both buyers and sellers in input and commodity markets (Katchova 2013; Sexton 2013). As a result, US agricultural producers are increasingly asked to navigate a wide variety of complex contracts and negotiate for prices as well as other terms of trade. A recent survey conducted with grain producers by Farm Credit Services of America (2017) found that 69 percent of their respondents used some type of cash forward contracts, but only one-third of respondents were "mostly" or "completely" satisfied with their marketing practices. Overall, while producers are likely using more contracting, they may not always be highly satisfied with their marketing outcomes. Producers may therefore, want more information to help improve their marketing as private negotiation becomes more prevalent.

Research in agricultural markets offers insights into outcomes for agricultural producers in markets where more transactions are privately negotiated. Yet, the results of these studies are inconclusive. Generally, markets for agricultural products are becoming thinner and more concentrated, that is, fewer firms with larger market shares are often the purchasers of agricultural commodities (Adjemian et al., 2016). Research focused on the potential for larger firms to exercise market power in contract negotiations suggests that price levels in concentrated markets are not greatly different from competitive prices (Key 2011; Vukina, Shin, and Zheng 2009; Muth et al., 2008). Further, research suggests that despite a lack of price reporting and time spent by sellers on evaluating and negotiating market prices, marketing contracts can offer higher, more stable net prices than auction markets (Plain & Grimes, 2010). Overall, this research suggests that market prices will likely be impacted by supply and demand conditions, and the move to private negotiation alone is not expected to have a large decreasing effect on prices.

Laboratory market research tells a very different story. In experimental markets, sellers do best in English Auction institutions (for example, livestock auctions) and receive the lowest prices when trying to sell previously produced goods via private negotiation (Menkhaus et al., 2003). Further, experimental markets indicate that producers shut out of forward contracting opportunities may be disadvantaged when trying to sell their product in privately negotiated transactions after production has occurred (Sabasi et al., 2013). The lack of opportunities for sellers to match with buyers, together with the risk of losing their cost of production for unsold goods, puts sellers at a further bargaining disadvantage in privately negotiated sales. Therefore, experimental research suggests that private negotiation coupled with this advanced production risk (incurred production costs before marketing) decreases seller bargaining power, and results in lower prices.

As agricultural markets shift away from more competitive information-rich institutions, such as public auctions to private contracting, managers may find themselves interacting in markets with fewer buyers (Adjemian et al., 2016). Moreover, producers may be negotiating with buyers that contract many transactions a year while they may only negotiate one or few. In addition, since these contracts are privately agreed on, price and other contract and market details are often not publically available. Based on this lack of experience and potential lack of information, coupled with advance production risk, sellers could be at a bargaining disadvantage. This producer bargaining disadvantage is supported by experimental market research (Menkhaus et al., 2003; Nagler et al., 2015). Yet, these experimental markets use college students as participants and not agricultural producers. There is no information about how producers negotiate and their related bargaining outcomes as a basis to determine if producers are negatively impacted during privately negotiated contracts. Given the prevalence of contracting in US agriculture, such knowledge could improve general understanding of agricultural markets and managers' profitability in changing integrated supply chains.

To address this void, we conduct focus group interviews to gather information from agricultural producers to better understand their experiences, strategies, and specific needs for developing skills in contract and price negotiation. Our research focus is to understand strategies used by producers when negotiating for price. A sequence of four producer focus groups was conducted. The sessions were designed to identify problems faced by agricultural producers regarding price and contract negotiation situations in their day-to-day operations. We summarize these findings in the results below, then offer conclusions regarding potential strategies and education needs that may be useful to agricultural managers as well as specialists trying to provide assistance to producers regarding their marketing management tasks.

Methods

Given the objective of our exploratory research, a variety of potential approaches exist for querying small groups for insights and analyses of the resulting qualitative data (e.g., Lofland et al., 2006; Gladwin, 1989). The focus group method was chosen as our interview technique due to its capacity to create interaction and discussion from multiple respondents regarding the topic of interest (Morgan, 1988). In each focus group session, standardized open-ended questions were presented (Fern, 2001) following procedures described in Johnston et al. (1995). Language common to respondents was utilized to avoid translation bias and miscommunication. Focus group participants were questioned in a way that allowed them to explain their marketing experiences focusing particularly on privately negotiated transactions. Diversity of expression regarding issues and experiences was encouraged throughout each session.

Four focus groups were held in 2016 with a total of 21 participants at four different locations (Riverton, Wyoming, in conjunction with Farm and Ranch Days; Evanston, Wyoming, including an Agricultural Outlook presentation; Torrington, Wyoming; and Casper, Wyoming, in conjunction with the Wyoming Stockgrowers Association meetings). Each focus group consisted of Wyoming producers representing an array of crop and livestock operations and marketing experiences.[1] The estimated age of participants ranged from late 20s to early 70s, with the majority of participants being in their late 50s. Approximately one-third of the participants were women. Years in production ranged from life-long agriculturalists to relatively new producers. Respondents had varying degrees of experience with privately negotiated contracts. Annual agricultural sales levels varied across respondents from less than $1,000 to over $500,000, with the median response being in the $100,000 to $249,999 range. This diversity amongst participants created compatible group members, but were not necessarily cohesive, following recommendations by Fern (2001) for exploratory research tasks.

A pre-questionnaire was given to participants prior to the start of discussion to stimulate thoughts about marketing alternatives and their private negotiation and bargaining strategies. These questions asked about pricing methods used by a participant when selling commodities during the past year as well as for the participant's level of agreement with a series of statements regarding their marketing and price negotiation strategies. (Responses to pre-questionnaire questions are reported in tables 1 and 2, respectively.) Moderators then led participants through a guided discussion following four focus group questions:

1. Describe what happened in your last market negotiation. We don't need to know exact price levels, we are trying to understand the overall bargaining process for your last negotiated sale. Discuss how you negotiated a final price. For example, who made the initial offer? Was there a counteroffer prior to agreement? Who did what during the negotiation? Do you feel either you or the other party made an extreme offer to move price in a particular direction?
2. What factors or issues other than price did you negotiate on during your last sale?
3. How much time did you spend actually negotiating this transaction?
4. What would you like to learn about negotiating market transactions in the future?

Descriptive statistics from the pre-session questionnaire were compiled to understand the background of the participants. Next, focus group audio recordings and notes from all researchers present at the sessions were transcribed. These electronic records were then used to identify issue categories by question, which ultimately resulted in descriptive codes (for example, "advance production risk is a problem," "matching risk with buyers is important," "strategy to improve net price," etc.). These codes were then used to group responses. This process of indexing issues by question is recommended as a systematic approach to compare and contrast data from focus groups (Krueger, 1998; Fern, 2001). Notable quotes deemed demonstrative of a coded issue were tagged in the transcripts for possible inclusion in reporting of the data as recommended by Krueger (1998). The results reported in this manuscript were chosen based on their prevalence across respondents both within and across focus group sessions.

Results

Analysis of the pre-questionnaire responses offers important insights into the focus group participants. First, while the majority of participants (73%) used a public auction to sell some of their product during the past year, a large proportion also used some type of negotiated contract in their marketing strategy (Table 1): nearly 45 percent indicated they used a contract sale with a privately negotiated price and 27 percent indicated they used a direct market sale with negotiated price. Other privately negotiated contract methods that relied on some type of pricing mechanism to reduce the time spent negotiating price (for example, a price based on a formula or cost-plus pricing) were also utilized. These results suggest that focus group respondents seem to follow the national trend, and privately negotiated contracts are an important part of their marketing portfolio.

Responses to pre-questionnaire statements that delve further into participants' bargaining behavior indicate that while over half (55%) of the participants like to bargain for price, nearly all (91%) feel that buyers have an advantage over sellers when negotiating prices (Table 2). Only about one-third of the participants (36%) felt they got the best price because of their bargaining skills. When we examine the questions related to bargaining strategy, nearly half (45%) of the respondents indicate they do not spend much time bargaining for price, which is reinforced in the later focus group discussions. It is interesting to note that when in the seller role, nearly two-thirds (64%) of the participants indicate they try to start the negotiation, but only about half (55%) of the respondents indicated they tried to start with an offer price higher than their target price. Alternatively, when the participants are acting as buyers in a negotiation, the vast majority (82%) say they wait for the sellers to start the negotiation process. As buyers, less than half of the respondents (45%) indicate they try to offer a bid price lower than their target price. Overall, these responses indicate that producers are perhaps less comfortable with an aggressive stance in trying to move the negotiations in their favor with starting bids or offers. Our focus group discussion results tend to support these results as well.

Several main themes emerge from analysis of the group discussions for the first focus group question, "Describe what happened in your last market negotiation." The first major result is that producers are generally not spending a lot of time on the price negotiation itself. When asked to describe what happened during their last negotiation, most participants indicated they spent very little time giving counter-offers or trying to move price in their direction.

Producer 2 *Evanston, Wyoming: I let them offer a bid price first.*
Facilitator*: And then you'll counter offer.*
Producer 2*: Right. And usually try to get a bid from a couple different people first, or kind of know where the market is, let them offer, and kind of go back and forth just a little bit. I mean, they can only go so far and I can only push so far in those situations.*
Facilitator*: So, when you negotiate, there is not a lot of negotiation on the price now? Producer 2 Casper, Wyoming: More on how many [cattle] he'll take.*
Producer 4 *Casper, Wyoming: Yeah, actually, we don't negotiate directly with him on the price.*
Producer 1 *Riverton, Wyoming: I just kind of offered – tried to think what was fair for the two of us – told them that was what I wanted. And when I tried to negotiate, I kind of told them that I had already thought it out, so, you know, I was willing to move a little bit, but I priced it where I thought that we should end up anyway. Then just kind of held on to my price. It was reasonable to start with.*

Research related to bargaining suggests that agents can generally improve their outcomes by being patient and increasing the time spent bargaining for price (Gerace 2017; Muthoo 1999; Phillips et al. 2014). Impatience, a desire to move the trade along, results in larger concessions during the price negotiation resulting in a less desirable price for the impatient party (Muthoo 1999; Phillips et al. 2014). Additionally, the first offer in a negotiation can often act as an anchor, so when it is less advantageous to one party, the negotiation result can often be less desirable for that party (Galinsky and Mussweiler 2001; Krause and Terpend 2006; Ritov 1996). Overall, results suggest that respondents may not be improving their chances for a better price outcome with their general approach being used.

A second emerging theme is that, as sellers, producers feel they don't have much bargaining power. The comments relate to what is termed advance production risk and matching risk by Menkhaus et al. (2003; 2007) when trying sell in private negotiation. The authors explain these as losses to sellers' bargaining power due to risk of losing production costs on unsold inventory and risk of not being able to match with a buyer willing to purchase their product when and where they need to sell it.

Producer 3 *Casper, Wyoming: Well, two years ago we were able to name the price. I mean, we got lucky, but last year I was just happy to get what they would give me.*
Producer 2 *Evanston, Wyoming: Right. The calves were too big, or whatever, you know if you had a contract they didn't want them, if they were too big, they didn't want them.*
Producer 1 *Evanston, Wyoming: You know, and some of the pasture cattle we had too, the buyers knew exactly what was in that contract, you know, not one head more, and that was it. And normally they would take a lot more, on a more normal year.*

Because producers feel they don't have much bargaining power with buyers, they also don't seem to have confidence they can change price greatly with added time spent bargaining.

Producer 1 *Casper, Wyoming: Well, the negotiation – there's not a negotiation. Well, like on a video auction, you put on there what slide[2] you'll accept. That's what they take. So there's no negotiating it. On that video, the negotiation is, if they don't like it they don't have to bid on it.*

Producer 3 *Evanston, Wyoming: And in the lamb market, we don't have enough [bargaining power], we're kind of at the mercy of whoever will take the few lambs that we have.*

Responses to the third focus group question, "How much time did you spend actually negotiating this transaction?", usually related to the fact producers didn't engage in offers and counter-offers, and thus, did not spend much time bargaining. These results suggest that respondents are behaving as if they have little to no bargaining power because they are fearful of losing that sale (and potentially their cost of production) and have no alternative (perhaps facing matching risk in finding another buyer) and are therefore, at a bargaining disadvantage (Menkhaus et al., 2003; 2007; Sabasi et al., 2013).

When producers were asked to respond to Question 4, "What factors or issues other than price did you negotiate on your last sale?", responses tended to focus on the importance of negotiating factors that affected marketing costs such as shrink (weight loss during handling and transport), transportation costs, or additional production practices for livestock. The participants also made it clear that the quality of their product, reputation of their product, and length of relationship with the buyer were all believed to improve their bargaining outcomes. Additionally, the length of relationship to the buyer created valued repeat sales and reduced costs looking for another buyer.

Producer 3 *Evanston, Wyoming: We do contracts. I've been lucky the past two years and I've got the calves sold before they dropped. But we do a lot of negotiation. Not so much on price, it's more on how much you can have on your [price] slide, You know, the way I look at it is, they [buyers] know how much they're* *going to pay for a calf, I don't care if it's a 500-pound calf or a 1,000-pound calf, they're going to pay the same amount of money. And so we negotiate slide and some of those types of things. And shrink.*

Producer 2 *Evanston, Wyoming: On livestock, reputation means a lot. And as far as heifers, are they pasture bred or AI bred? synchronized to a short calving window? Because we calve in February and we like to shorten our time in the barn out there. So, yeah, there is negotiation there.*

Producer 2 *Casper, Wyoming: I think we had leverage as a seller because at that point in time we weren't taking much shrink. The cattle would go from this [our] pen, across the scale, and into his [the buyer's] pen, and he knew our cattle. He was willing to be close to what was the top market price. And there was only three percent shrink. So it was very satisfactory, with no cuts, so it was a great negotiated price.*

Producer 2 *Riverton, Wyoming: [Talking about selling hay.] Quality. Well, we try and tell them [buyers] that we're a little bit better than the next guy; try and get a little more out of them [based on quality].*

Producer 1 *Casper, Wyoming: The guy that bought the heaviest four loads of our steers liked them so well he came back and wanted to know if we had any more. And so, at that time the price had bottomed out, and I thought if I can get what I got for those others in August I'd be good. So that was where I started to get my price point. He came back and said that would be fine but wanted them weaned. I said for how long? He said 30 days. So I agreed, I weaned them for 30 days, he sent me the vaccine and I vaccinated them for him, and he's going to give me per head as much as I got for the heavy steers on these. But he knew what he was getting, so he was excited to get more of them. Knowing what he knew, he liked them so well, he came to me.*

Producer 4 *Casper, Wyoming: I think more so than just price we try to—this is just a factor, we sell everything on the ranch, but—shrink is a big deal. We've been selling to the same buyer for quite a few years, so you have an advantage. They know what they're buying, but still, though, lining trucks up so we have calves ready to go, there are just other things beside the price.*

Facilitator*: So how does that work? Do you guys negotiate shrink every year then? Producer 4: Basically, we talk about it. Some are one [percent], some are two percent. Depending on the way our cattle are handled.*

Because producers are fearful that buyers may not purchase their product if they are aggressive about moving price in their direction, these results suggest producers try to improve their outcome with non-price attributes in the negotiation. Shrink and other marketing costs can reduce the offer price by as much as five to fifteen percent and are very important to manage (Bastian et al., 2017). It is interesting to note that producers feel they can be successful in gaining some control in negotiating these costs while mitigating the chance of losing a sale.

When producers in the focus groups were asked "What would you like to learn about negotiating market transactions in the future?", comments focused on better market information when going into negotiations. These comments point to concerns that sellers need to have more and better information on prices in their market. Several comments also indicated they would like information on how to negotiate better prices.

Producer 4 *Riverton, Wyoming: Well, the more information you have, the better you can do. You need more information. You need more information out there.*

Producer 2 *Evanston, Wyoming: Well, you keep asking those two specific questions different ways; is it better to be the first [to] offer on a price? Or is it better to be second? Or… teach us!*

Research indicates that improved information on marketing alternatives can improve producers' outcome by improving their reservation value during a negotiation (Subramanian 2010). This alternative value when there is no deal in the current negotiation, is often termed "Best Alternative to a Negotiated Agreement" or BATNA. An improved BATNA puts parties in stronger bargaining positions as it makes aggressive offers or counteroffers easier when a clear idea of the best alternative to a failed deal is available. The above comments reflect that participants want better market information to clarify their BATNA and increase their bargaining position. Another important piece of information for producers is to know their cost of production going into a negotiation. Moreover, the final comment above indicates that information about negotiation strategies could be desirable.

Conclusions

While we cannot draw firm conclusions about all producers given the nature of our sample, our results suggest that privately negotiated sales are an important part of the marketing portfolio for the producers interviewed. The participants generally feel they do not have much bargaining power when it comes to price. Producers in the focus groups reported they do not feel comfortable spending much time on the negotiation. Overall, focus group results support research indicating factors such as advance production risk and matching risk negatively impact sellers in laboratory markets (Menkhaus et al., 2003; 2007) and are likely impacting these agricultural producers when they negotiate prices. Generally respondents negotiating a sales of their product stated a weaker bargaining position because of this.

Focus group participants are more comfortable discussing the quality of their product during negotiation and reported that reputation for a quality product positively impacted prices. While most producers did not report spending much time directly negotiating price, they were more willing to try to influence their share of marketing costs such as slide, shrink, additional production practices, and transportation during their negotiations. These factors greatly influence net price after marketing and can be an important part of the bargaining process.

Overall, participants indicated they felt they would do better if they had more market information before entering into a negotiation, and when queried indicated that the information needed to be based on local negotiated prices. Such information is often difficult to obtain, as many producers, who make up local markets, are unwilling to share such information. However, the desire for this information likely indicates producers' desire to improve their bargaining position by knowing about their best alternative or BATNA.

Participants also indicated a desire for training to improve their bargaining outcomes. While research regarding the success associated with training is limited, Movius (2008, 509) concludes, "While far less prevalent than one would wish, existing evidence suggests that negotiation training can have positive effects." Zerres et al. (2014) conclude negotiation training is effective in reaching mutually beneficial outcomes if the trained party is the seller. Interestingly, training did not have an impact on outcomes when the trained party is the buyer. The above research did not focus specifically on price negotiations, however. We believe training and education in price bargaining strategy is warranted.

The education and training most likely to benefit agricultural producers regarding bargaining power and the prices they receive may need to focus on improvements in negotiation behavior and strategies. Specifically, training sellers to gather information on their alternatives prior to negotiating, making a strong initial bid during negotiations with buyers, and being patient by making more counteroffers during negotiation may increase the prices they receive.

Previous research shows that the individual making the first bid or offer tends to achieve better market outcomes (Galinsky & Mussweiler, 2001). In addition the value of that initial bid influences the negotiated price, as it creates a strong anchoring effect (Galinsky and Mussweiler, 2001; Ritov, 1996; Krause & Terpend 2006). As a result, education and training for sellers that focus on making more aggressive opening bids may help move negotiations in their favor, thereby increasing the prices they receive.

The negotiation strategy chosen by sellers impacts how much negotiation power they have over the settlement price (Krause & Terpend, 2006). Making extreme first offers and minimal concessions has been found to lead to better market outcomes (Huffmeier & Freund, 2011). This type of behavior is consistent with a more patient negotiation strategy – more emphasis placed on maximizing the amount of profit per unit traded through multiple offers and bids than on increasing the overall quantity sold. As a result of this patient behavior, the time spent in price negotiations is extended. This strategy has been shown to lead to the highest profit in laboratory markets (Gerace, 2017). Yet producers in these focus groups seem to shy away from this strategy likely due to concerns related to potential loss of sales. Moreover, information about cost of production, alternatives, and market prices could improve bargaining outcomes as well (Muthoo, 1999; Phillips et al., 2014; Subramanian, 2010). Therefore, fostering a more patient strategy during private negotiations and gathering information about alternatives prior to negotiations are additional focuses of training and education.

Our results from these focus group interviews suggest that as more agricultural managers face opportunities to sell products privately, while focusing on quality and other facets of the negotiation are important, opportunities for better market outcomes may also involve education and training related to bargaining strategies focused on improving prices.

Endnotes

1 While respondents indicated they marketed crops, livestock, or both, most participants focused on livestock sales during focus group questions. We attribute this to most Wyoming producers having both livestock and commodity crops grown as feed for livestock operations, and if sold, crops are often sold to elevators rather than via private treaty.

2 Since sellers can never be certain what the actual weight of their cattle will be at delivery, a mechanism called a price slide allows for an adjustment in price if the seller's estimate is wrong. For example, if calves were contracted for an expected average weight of 525 pounds with a slide of $0.15/cwt for every pound over an average weight of 540, price will be discounted by this amount if cattle are over 540 pounds.

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Table 1. Frequencies associated with pricing methods reported by focus group participants in their operations when selling commodities during the past year

What pricing methods did your operation use when selling commodities during the past year?	Percent of Participants Reporting
Price determined in a public auction	73%
Contract sale with privately negotiated price	45%
Direct market sale with negotiated price	27%
Contract stipulating base or formula price	18%
Price determined via video auction	18%
Direct market sale with production-cost based price	9%
Price determined via sealed-bid auction	0%
Other pricing method	0%

Table 2. Frequencies associated with focus group participants' agreement with the statements from the questionnaire (percent of respondents indicating they agreed or strongly agreed with the statement). A five point scale presented options from strongly disagree through strongly agree.

Indicate the extent to which you agree or disagree with each of the following statements regarding your marketing and price negotiation strategies.	**Agreed or Strongly Agreed**
I generally **like to bargain for price**.	55%
I generally believe **buyers have an advantage over sellers** when bargaining for price.	91%
As a seller, when negotiating sales during the past year, **my bargaining skills resulted in the best price** for my production.	36%
As a seller, when negotiating sales price I try to **offer a price higher than my target price** so the buyer will offer a good bid.	55%
As a seller, when negotiating sales price I generally **wait for the buyer to make the first bid** so I can better gauge what my counter offer should be.	18%
As a seller, when negotiating sales price I try to **make the first offer** so the buyer will give a good counter offer.	64%
As a seller, when negotiating sales price I try **not to spend much time bargaining** so a price can be agreed upon quickly.	45%
As a buyer, when negotiating purchase price I try to **offer a bid that is lower than my target price** so the seller will offer a good bid.	45%
As a buyer, when negotiating purchase price I generally **wait for the seller to make the first bid** so I can better gauge what my counter offer should be.	82%
As a buyer, when negotiating purchase price I try to **make the first bid** so the seller will give a good counter offer.	9%
As a buyer, when negotiating purchase price I try **not to spend much time bargaining** so a price can be agreed upon quickly.	36%
As a buyer, I view a higher than expected purchase price as a loss in potential profits, rather than a smaller than expected gain in profits.	27%
As a seller, I view a lower than expected sale price as a gain in profits, rather than a potential loss in profits.	18%