# Lebanon Co. DHIA



# Business By Newton Bair

### DON'T BE "MACHINERY POOR"

The term "machinery poor" is a misnomer — it's akin to being "land poor" or "rent poor" or any other kind of poor. Carrying a heavy investment in something that gives back too little in return can make you poor - figuratively speaking.

I don't mean to say that all machines are bad investments - far from it. Owning the right equipment that will economically accomplish work that you must get done can be the best investment you can make. The important thing is to honestly look at all of the reasons for owning, or not owning, a given machine.

The Penn State Farm Machinery Management Guide lists six questions to consider BEFORE you invest in farm machinery.

1. Will it perform the desired job and return maximum profit to the business? Does it fit the present system, or must companion equipment also be bought?

2 Are vou planning ex-

John D Bomgardner 3

pansion or custom work?

3. Is the first cost high and the annual use low?

4. Will it provide the least cost method of getting the job done? Is custom work available at reasonable

5. Would a used machine have the reliability and capacity to do the job at less cost?

6. Would the money to buy the machinery produce greater return if used elsewhere?

After you get past the first two, take a good look at number three. Whether you are thinking about a selfpropelled combine or a fourrow corn planter, the cost will be high - you can be sure of that. But you can justify a rather high cost if the annual use is also high. The problem is to determine the best relationship of cost to hours or acres of annual

One quick example will illustrate what I mean. For want of space, we'll skip the mathematics. (Forms are available from your local Extension Office to work out your problem.)

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1. We are considering the purchase of a new 12 foot self-propelled combine. It will cost in the neighborhood of \$60,000. We expect to use it on about 400 acres a year and hope to use it for ten years. We assume that it will cost about three acres an hour and the operator's time is worth \$5 00 an hour. What will it cost per acre to own and operate this implement?

Used only on 400 acres a year, it will cost \$25.05 per acre just to own it. Operating cost will be an additional \$8.15 per acre, making a total cost of \$33.20 an acre. Can you hire someone to do it cheaper? If you can hire a custom operator at \$20.00 an acre, your break-even acreage then jumps to 660 acres. So, to justify ownership of this equipment, you'll have to harvest an additional 260 acres per

2. You grow about 100 acres of corn and 50 acres of soybeans, so you are looking for a new four row planter. You'll trade in the old one so the net cost of a new four row no-till planter will be about \$7,500. (Don't you like to dream!) So, we'll be using it for 5 years on 150 acres a year. What is the cost per acre to own and operate?

We also figure a power cost to operate the corn planter. You already own a 60 horsepower tractor with an annual use of 400 hours and a useful life of 10 years. The initial cost was about \$8,000. So, we try to minimize the cost per acre, but even then it works out to \$2.77 an acre to own and operate the tractor. The ownership and operating cost of the new planter is \$7.78 an acre, making a total of \$10.55. Adding the labor cost of \$2.25 per acre brings the total cost of owning and operating the planter on 150 acres to \$12.80 an acre. If you plant 200 acres a year, the cost will come down to about

\$10.00 an acre. Compare these costs to the cost of custom operation and decide if it will be more economical to own the machinery or hire it done by a custom operator.

Of course, there are all kinds of variables that will influence your decisions on what to buy. We haven't even considered such things as timelessness, cash flow, high interest rates and many other things that will influence a decision on owning a machine. We've said nothing about pride and prestige or status symbols, any of which can help shape our desire and decision making process.

The important thing in today's business world is to give top priority to the economics of owning farm equipment. The return in dollars must equal or exceed the cost of ownership, in order that we don't become "machinery poor."



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