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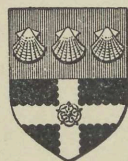
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THE SECOND-HAND FARM MACHINERY MARKET

Present-day Trading Conditions

By

A. H. GILL

MISCELLANEOUS STUDIES No. 20

PRICE 5/-

July, 1960

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*An examination of the attitudes and problems
facing those principally concerned*

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1—SECOND-HAND MARKETS

Second-hand markets, to use a convenient and popular description for markets in used goods, are an accepted part of the economic scene. Their existence is taken for granted and so are the functions they perform. Yet the very likelihood that these functions are commonly accepted without a second thought and without examination means that we are apt to miss their full significance. It seems appropriate, therefore, to restate at the outset certain basic facts about second-hand markets and the part they play in the economic processes of production, distribution and consumption.

The significance of second-hand markets may perhaps be most clearly appreciated by imagining what would happen if they did not exist, that is, if the buyer was unable to re-sell his purchases. Ownership and the volume of trade for many important durable consumer goods would fall sharply for two reasons. On the one hand, those who could not find the means to buy new goods would be debarred from ownership. On the other hand, inability to re-sell would deter some from buying either because they disliked being tied to a particular item or because they anticipated changes in their means and tastes. Thus second-hand markets serve to stimulate demand and the level of economic activity.

Buyers, of necessity and of choice, place different values upon the goods they own. Some, for example, set particular store upon appearance and the latest designs, others feel particular concern about reliability and absence of breakdowns, others are prepared to cope with their own repairs, and so on. Those who can afford and enjoy having the latest models are free to do so simply because the machines they now own will have a second-hand resale value and the ease with which this type of owner disposes of his existing machines has, therefore, a direct bearing on the volume of new sales. His machine probably goes to a buyer who is satisfied with the basic service it provides. This person in turn probably passes his existing machine to a buyer on the fringe of the market who is able to do his own repairs and maintain the machine to his own satisfaction. The second-hand market thus extends ownership by attracting this class of marginal buyer. Buyers who would otherwise be debarred from ownership are able to satisfy their needs.

To satisfy the wide variety of tastes a wide range of goods must be available. But goods which were identical when new are no longer regarded as substitutes for each other when second-hand. They are looked upon as different goods and so provide the range from which the consumer may choose. Second-hand markets thus help each class of owner to satisfy his preferences and to meet his changing circumstances. Without these markets his demands would surely be less well met.

Second-hand Farm Machinery

The practice for those who sell new goods to accept second-hand items in part-exchange is common to a number of trades in durable goods and agricultural machinery is among them. Indeed, an important feature of the agricultural machinery trade is the extent to which such exchanges are carried out. The sale of a new item without a part-exchange arrangement covers only a minority of cases. One recent estimate* is that 85%-90% of tractor sales involve the acceptance of a tractor or some other piece of equipment in part-exchange. The proportion is probably lower when all types of machinery and equipment are taken into account, but nevertheless it may well be the case that three-quarters of the sales of new farm machinery in this country involve a part-exchange deal.† Thus new sales and the bulk of second-hand sales are effected by the same firms. This is a feature of long-standing in the trade and it would seem realistic to assume that it will remain so. In other words, the second-hand market will remain of the closest direct concern to these firms. However, despite the close and obvious links between the new and second-hand markets some traders undoubtedly feel that second-hand trading involves some stigma. They appear afraid that they will become known as second-hand dealers and that as a result their reputation with new machinery will suffer. Consequently they are reluctant to accept the importance of second-hand trading and to give it the attention it requires.

Manufacturers are no less interested in the second-hand market and cannot divorce themselves from the problems involved, even though they do not themselves directly handle second-hand equipment. For machines for which the market is largely saturated—and an increasing number seems likely to fall into this category—the manufacturers have a particular interest in second-hand activity.‡ In such cases the demand for new items is almost entirely a replacement demand from existing owners rather than a demand from fresh owners. Even in cases where the market is continuing to expand, replacement demand may be more important than extension demand. Manufacturers may do their utmost to increase the demand by introducing technical refinements which appeal to the “fashion-conscious”, but the size

* “Farm”, March-April, 1959. Ford Motor Co. Ltd., Dagenham, Essex.

† Moreover, some second-hand sales also involve a further exchange, although some distributors refuse to accept such transactions.

‡ The Ministry of Agriculture, Fisheries and Food, commenting on the position in 1957 (Press Notice 238/58), stated that farmers’ holdings of wheeled tractors, fertilizer distributors, all forms of transport, tractor ploughs and other cultivating implements, corn and combined drills, mowers, other haymaking implements and binders appeared to be fully adequate.

The 1959 machinery census actually showed a reduction of 2½% in the number of wheeled tractors in England and Wales compared with 1958. However, it is suggested that the fall may be due to the fact that the figures are not strictly comparable—the 1959 figures were collected at the March census and the 1958 figures at the September census, and first registrations are usually seasonably lower in the first half of the year.

of the replacement demand depends to a considerable extent upon the level of second-hand prices and the ease with which items can be sold on the second-hand market. A smoothly working second-hand market is, therefore, as relevant a factor to the manufacturer as it is to the retailer.

Finally, there is the customer, the farmer. Second-hand machinery would seem to suit many farmers very well, especially those with limited access to capital and credit and those whose work requirements are small in relation to the life output of the machines*. Moreover, it may be questioned whether the latest technical refinements are of great importance on many farms. The relatively small labour force found on most tends to be fixed in size and marginal savings of time are often not of great importance. Consequently, it would seem that there should be a considerable demand for second-hand farm equipment. At the same time, many bigger and long-established farmers will be interested in new items and their interest in the second-hand market will be chiefly in the price they may expect to get as sellers. A fall in second-hand prices must reduce their willingness to exchange machines and so must tend to reduce the rate of new sales.

In the second-hand agricultural machinery market, as in all markets, there are opposing points of view about the appropriateness of the marketing system. Buyers, on the one hand, will have their own particular problems and faults to find. Sellers, on the other hand, may be dissatisfied with the buyer's behaviour and with each other's. Any friction must tend to restrict the smooth running of the market and prevent the best use being made of the equipment available. An attempt is made in the following pages to analyse the causes of friction in the second-hand farm machinery trade by presenting the attitudes and problems now facing those principally concerned. Information provided by farmers, distributors,† manufacturers and second-hand dealers is presented in turn and comments are made on changes that appear to be desirable to bring about an improvement in the present situation.

2—FARMERS

The three main points raised with farmers concerning second-hand farm machinery were their past experiences with it, their opinions of the present organisation of the second-hand trade and the changes they thought to be desirable in the trade.

* See "Notes on the Life and Use of Certain Farm Machines", A. H. GILL, Department of Agricultural Economics, University of Reading, Miscellaneous Studies No. 14, June, 1958.

† The term "distributor" has been used throughout the report to describe those who act as retailers for the manufacturers and who carry out repairs and servicing for farmers. The term "dealer" has been restricted to those who buy and sell only second-hand machinery.

Sources of Information

By means of a postal questionnaire dispatched in February, 1959, information was obtained from 248 farmers, a response which represented 55% of those to whom the questionnaire was addressed. The farmers concerned were distributed throughout the counties of Hants., Berks., Oxon., Bucks., Warwicks. and Northants., and pursued a variety of farming systems. As Table I below shows, a few of them had run their own farms for less than five years and may therefore have been expected to buy second-hand items, but the majority had been farming on their own account for some time. One-third of them farmed over 250 acres which is considerably larger than the holdings at first thought of in connection with second-hand machinery.

TABLE I

<i>Size of Farm.</i>	<i>No. of Farms.</i>	<i>%</i>	<i>Years farming on own account.</i>	<i>No. of Farmers.</i>
Under 50 acres	10	4	Under 2 years	2
50-99 "	35	14	2-4 "	12
100-149 "	34	14	5-9 "	41
150-249 "	88	35	10-14 "	32
250-399 "	59	24	15-19 "	22
400 acres and over	22	9	20 years and over	130
TOTAL	248	100	—	239*

* Nine did not provide an answer.

Despite the fact that the farms tend to be comparatively large, 211, or 85% of the farmers, had purchased at least one important item of machinery or equipment second-hand since 1950. A total of 707 second-hand purchases were listed by the farmers. In addition to those in the following table, such items as mowers, ploughs, harrows, trailers and sprayers were mentioned and, in fact, the list embraced practically the whole range of present-day farm equipment. The details relating to the major items were :—

<i>Item.</i>	<i>Number Bought.</i>	<i>Number of Buyers.</i>	<i>Per cent. of those answering questionnaire.</i>
Tractors	193	147	60
Combines	97	88	35
Pick-up Balers ...	69	68	27
Combined Drills ...	51	51	21
F.Y.M. Spreaders ...	38	37	15
Milking Machines ...	21	21	8

Some farmers had bought two or more of the above items and consequently appear in two or more totals. If allowance is made for this fact it is found that 192 buyers, 77% of those who supplied information, purchased the machines listed. It is clear, therefore, that a substantial majority of those

who answered the questionnaire have had some experience of the major items of farm equipment second-hand.

It is interesting to note the presence of larger farmers among the buyers. Two-thirds of the tractors and three-quarters of the combines and balers went on to farms of over 150 acres.*

<i>Buyer's Farm.</i>	<i>Tractors.</i>	<i>Combines.</i>	<i>Pick-up Balers.</i>
Under 150 acres ...	33%	23%	24%
Over 150 acres ...	67%	77%	76%
TOTAL ...	100%	100%	100%

The distributions are probably influenced to some extent by the inclusion of the early 1950's when new machines were scarce and buyers not able to choose freely. Nevertheless post-war shortages are unlikely to explain fully the presence of so many large farmers in the list. Some of these large farmers, no doubt, elected to buy second-hand machines after careful consideration of the economic implications.

The sources from which these farmers obtained the second-hand items listed were as follows :—

Distributors	...	...	53%
Farm sales	...	...	19%
Farmers	...	...	13%
Machinery auctions	...	...	12%
Dealers	...	...	3%
			100%

When tractors, combines and pick-up balers are considered alone it is found that two-thirds of them were bought from distributors. Thus over half the total transactions by number and probably well over half by value were handled by distributors. No other single source approached them in importance, the second being farm sales providing 19% of all the items and 14% of the tractors, combines and balers.

Experiences with Second-hand Machinery

The farmers were asked to state whether any of their second-hand purchases had been unsatisfactory and, if so, in what respects. The answers indicate that one-quarter of the farmers had not been altogether satisfied. One-third stated that they had been satisfied, but the remainder (42%) gave

* Some of the farmers may have changed farms since making these purchases, but it is unlikely that such moves would alter the percentages significantly.

no answer to the question. Although it may be reasonable to assume that well over half the 211 farmers who had purchased second-hand were satisfied, those who were not formed a substantial proportion of the whole. Most of the complaints were in connection with reliability and the need for overhauls soon after purchasing ; others concerned unsuitability for local conditions and low outputs. These complaints must be considered in relation to prices paid and even then their justification is to some extent a matter of opinion. Nevertheless, it seems probable that even when allowance had been made for the special circumstances of each particular case, many farmers thought their dissatisfaction was justified.

Some farmers had grievances against those who sold the machines for giving what they considered to be incorrect statements of the overhauls carried out on the machines, for giving incorrect ages and for painting merely to hide defects. In six cases complaints of this nature were specifically directed against distributors. A few farmers admitted their mistakes in buying without sufficient care and forethought. Some who had relied upon their own judgment in buying the simpler items of equipment were among those who had been disappointed. A twisted beam on a plough, excessive wear on disc harrows and on the wheel bearings of a trailer were faults encountered by three farmers. Many asserted they would be prepared to buy simple machines on their own initiative and without advice from persons technically experienced and yet the examples quoted indicate pitfalls even with the simpler machines.

It is clear that in at least seven cases mechanical failings were excessive because the machines were of basically poor design. Several unsatisfactory models have been produced and sold in quantity since the war—certain combines, farmyard manure spreaders and swathe turners, for instance—and it is difficult for the farmer acting alone to ascertain which machines are poorly made. It is probably no less difficult for him to decide which machines are too heavy, have too low an output or are in other ways unsuitable for his own farming conditions. He could expect help in these matters from a distributor for most of them would regard such advice as part of their normal service, and the distributor could probably help more readily in respect of older models than he could in respect of those more recently on the market. However, three farmers complained that distributors had sold models which they must have known were of unsatisfactory design.

Present Attitudes towards Second-hand Machinery

An indication of the farmers' present feelings towards second-hand machinery was obtained by asking those who contemplated buying machinery but who were not proposing to buy it second-hand their reasons for not doing so. Answers were given by 154 farmers and in many cases more than one reason was provided. Some qualified their answers by stating that they were

prepared to consider certain machines second-hand but not others. For example, machines which were simple and had few moving parts and which were not used to handle corrosive materials such as fertilisers, manure and sprays were in many cases regarded as possible second-hand purchases. However, the big majority showed a reluctance to buy second-hand items, simple or not. This fact contrasts with the earlier one that 77% had purchased second-hand items and the reasons for the contrast are not known. But what is known are the reasons for the farmers' present reluctance.

Doubts about the reliability of second-hand machinery, expressed or implied in 78 cases, were the chief reason given and allied to this was a concern about the costliness of repairs and maintenance expressed in a further 22 cases. Other reasons stated included obsolescence (15), poorer income tax allowances (15), restricted range available (13), poorer resale value (8), poorer servicing and spares service (5) and high prices (3). One farmer mentioned poorer hire purchase terms on second-hand machinery, one said he preferred to buy new on hire purchase terms and one mentioned that second-hand equipment was of less interest to his workers.

Reliability.—Feelings that second-hand purchases must inevitably be “dearer in the long run” appear to be very widely held, but whether they are correctly held is perhaps open to question. To what extent such feelings indicate over-cautious, “play-safe” attitudes and to what extent they represent prudent business attitudes cannot be decided. Certainly the incidence and costliness of repairs to machines is a matter which has not been thoroughly investigated and strictly the farmer cannot use his past experiences with one machine as a guide to what will happen in the future with another machine. These facts suggest that farmers' doubts are to some extent subjective, a reflection of their willingness to “take a chance”. But when it is remembered that the yearly demands on most farm machines are only a fraction of the maximum use that might be made of them it seems fair to suggest that a basically sound and reasonably maintained second-hand machine should be more reliable than many farmers are prepared to concede.

Obsolescence.—Important technical developments in recent years have made some farm machines completely obsolete and probably the tractor—now with its hydraulic linkage and “live” power-take-off—is the most important example. A desire on the farmer's part to avoid such items is quite understandable. But in circumstances where machines are rarely worked against the clock something less than the newest in technical efficiency may be perfectly adequate. In other words, no return other than the feeling of satisfaction at having the latest model may be set against the extra cost of owning such a machine. Many second-hand machines have been superseded by newer models, but often the

newer models incorporate changes which are not of great importance. An old combine with a hand or electrically operated lift, for instance, will be less efficient than a new combine with one hydraulically operated, but the old designs are unlikely to have any seriously adverse effects on the success of the corn harvest as far as many farmers are concerned.

Restricted range.—Some of the 13 farmers who expressed the view that the range of second-hand machines available was inadequate may have had the matter of new models which incorporate quite minor improvements in mind when making their comments. If so, the foregoing remarks relating to obsolescence remain appropriate. Other farmers may have been concerned with new types of machines, e.g. the forage harvester, and in such cases there must always be some delay before second-hand machines come on the market. If the farmer feels compelled to buy quickly then he is likely to have to purchase new.

Apart from the special case of new types, it seems likely that the second-hand supply available will continue to widen as it has done over the past five or six years. The reintroduction of "investment allowances" in 1959 after a lapse of three years, hire purchase facilities and a high level of trade-in allowances must all tend to stimulate sales of new machinery and so increase the supply of second-hand items. If these conditions continue and there is no marked fall in farm incomes, it seems reasonable to assume that the second-hand choice will become generally better. However, it is conceivable that the small farmer operating in areas where large farms predominate will always be faced with a range of second-hand machinery consisting of a majority of large models which are not particularly suitable to his needs.

Income Tax Allowances.—Larger allowances for income tax purposes was another reason given for preferring new to second-hand machinery. For bigger farmers this is probably a factor of some importance, but for smaller farmers—those most likely to be attracted by second-hand items—the allowances may have little significance. The actual money value of the allowances depends upon the size of the farmer's income and the taxable income of many small farmers, especially those with families to support, is such that the allowances may have quite a small effect on the amount of tax paid. Moreover, assuming that either a new or second-hand machine is to be bought, then it is the difference between the allowances which is significant. Some of the statements made raise doubts as to whether all farmers fully understand the way in which allowances are given and their likely effect on tax liability. But even if they do understand their working, it is unwise for them to regard allowances only as a means of reducing the burden of taxation without bearing in mind the need for the eventual replacement of their equipment. Consequently too much importance may be attached to the matter and too little to the fact

that a wise second-hand purchase will presumably leave capital available for investment in other directions.

Other Reasons.—Eight farmers were disinclined to buy second-hand equipment because of its poorer resale value. Their reasoning seems somewhat obscure, but possibly they consider that little more than scrap value will be realised from second-hand machines whereas new machines after the same period will not only have some resale value but also some useful life remaining. In other words, they may regard new machinery as a safeguard against any future fall in income. If this assumption is correct, it may well mean that farmers' annual machinery costs are higher than they need be, and it again raises doubts as to whether full consideration is always given to possible alternative uses of capital.

Of the few remaining reasons given for not buying second-hand machinery—poorer spares service, poorer hire purchase terms and reduced interest on the part of employees—each has some point. Poorer servicing was also mentioned but there seems to be no sound reason why this should ever arise as a general complaint.

Changes Desired

If the views of those who answered the questionnaire can be regarded as typical, it may be said that farmers would like to see changes in the present organisation of the second-hand market and, further, that the task of trying to meet their wishes is primarily one for the distributor. Among 198 replies to a question asking them to list sources of second-hand machinery in order of preference, 113 placed the distributor first and another 34 thought him to be no less desirable than other possible sources. Thus three-quarters (74%) of the farmers would look first to the distributor to satisfy their needs. Only 13 would not be inclined to seek second-hand machinery from this source. An analysis of the reasons given for the choice shows up once again the importance of reliability—"most reliable", "will guarantee", "will put right" and "will have overhauled"—accounted for 76% of the answers. The majority of those who preferred farm sales (the second most popular source) also did so on the grounds of reliability feeling that farm sale machines were being sold for a "good" reason and not because they were faulty. Farmers laid much more stress upon reliability than upon relative prices, although the feeling that distributors' prices were too high was the most common reason for not going to them.

Yet in response to a question asking if they thought there was need for greater assurances about the reliability of second-hand machinery, 60% of the 191 farmers who answered thought there was and only 30% had no misgivings about reliability, approximately half the latter only when

dealing with their regular distributor. A further question asking the farmers in what ways, if any, they thought the service given by distributors could be improved brought 85 answers, and 40 of these dealt with fuller guarantees, more thorough overhauls (possibly to standardized levels), better workmanship and full and frank statements of mechanical condition. Developments along these lines would obviously be particularly welcome to farmers. But, no less obviously, some of these services cannot be divorced from price, and the fact that farmers made the suggestions may provide an indication that distributors have not established that improvements are impossible at present-day price levels.

A demand made by five farmers was for more helpful advice on the wisdom of second-hand purchases rather than strenuous efforts on the part of the salesmen to sell new items. At first sight this request may seem unrealistic, but it may not be incompatible with bigger profits for the distributor over the long period. Also welcome to some farmers would be better after-sales service on second-hand machinery which was felt to be inferior to that afforded to new items. The possibility of a period of free servicing on second-hand purchases and for trials "on approval" were further points raised.

The supply and price of spare parts for older machines was regarded as satisfactory by almost half those who answered the questionnaire. Among 211 replies, 104 expressed satisfaction, 58 were fairly satisfied and 49 had reasons for complaint. The aspects most frequently commented upon unfavourably were prices—especially those of imported parts—speed of delivery and the great number of minor modifications.

Some farmers felt there was a need for improvement in the quality of advertisements and displays and for more information on prices. One farmer considered distributors were almost furtive in the matter of second-hand sales and perhaps many would appreciate and probably derive confidence from attempts to make second-hand displays more attractive. Similarly, more extensive and informative advertising with details of prices would also tend to create confidence. Farmers quoted with some irritation the practice of certain distributors of circularising second-hand lists providing simple descriptions, but not quoting the price of each machine. Those farmers who felt a need for more information about second-hand prices were twice as numerous as those who were satisfied with the present position. Some attempt at regular collation by the farming press appeared to be in the minds of the majority. Possibly an analysis showing geographical variations or statements of the Cambridge monthly auction prices would be welcome. The following American classification may appeal to farmers as a possible basis for tabulating tractor prices, for in view of the seemingly infinite range in quality some classification is clearly essential if meaningful prices are to be quoted.

Classification of Tractor	Excellent.	Good.	Fair.	Rough.
Engine ...	Perfect condition 400-600 hours' use.	Good running condition.	Possibly in need of a minor overhaul to restore.	Obviously in need of major overhaul.
Rubber ...	80% tread remaining ; no breaks or cracks.	70% tread remaining ; no breaks or cracks.	60% tread remaining; some cracking evident in side walls.	Smooth.
Paint	Original and bright.	Original paint or good repaint job.	Only fair, weathered and some rust apparent.	Scarred, weathered, rusty, needs painting urgently.
General Appearance	Excellent.	Good over all.	Worn, some dents, minor parts such as guage covers missing or broken.	Dents, ruptures, broken parts, loose wires, components such as lights broken, missing or inoperative.

Source : "Implement and Tractor", January 10th, 1959.

As far as seasonal variations in the prices of second-hand machines are concerned, it is very doubtful if farmers are fully aware of them. It would seem that distributors could, if they wished, do much more to induce farmers to buy second-hand items out of season just as manufacturers nowadays do their utmost to induce farmers to buy new items out-of-season. Any success distributors had in this way in respect of combines and balers would help to reduce the second-hand stocks which the very success of the manufacturers' "out-of-season" discount programmes for these two machines tends to create. Thus it is conceivable that both sides might benefit if price differences were more generally and readily known.

Improvements in service which enable distributors to sell second-hand machinery more readily could not only bring them better margins, but also reduce any risk of excessive second-hand stocks restricting efforts to sell new items. Their views on the likelihood of achieving improvements of the kind farmers would like to see are presented in the following section.

3—DISTRIBUTORS

The two main points on which distributors were asked to give their views were the difficulties involved in trading in second-hand machinery and the ways in which improvements could be brought about.

Sources of Information

During the early months of 1959 comments and opinions were obtained from 105 distributors, in 74 cases by postal questionnaire* and in 31 cases by personal interview. The 31 who were questioned personally are operating in Berkshire and nearby counties, but the 74 who replied by post are located throughout England and Wales, and include three in Scotland and one in Eire. During May, 1960, a second brief enquiry was made and 53 distributors from among the original 105 commented upon the current trading situation. At the present time there are about 1,500 distributors in the United Kingdom, so the sample of 105 represents about one in every fifteen.†

Most distributors operate in one locality only, but some have a small number of branches and cover wider areas. One business controlling over 60 branches and operating over several counties is exceptionally large. The firms act as retailers for the various manufacturers and approximately 40%‡ of them confine the bulk of their dealings to one particular manufacturer by making what are called "exclusivity" agreements.‡

Generally, the firms are concerned solely with agricultural machinery and equipment, but a substantial proportion, perhaps one-tenth, have associated companies dealing in motor cars.

Views on the Present Situation

Statements obtained indicate that nowadays distributors do not as a rule deliberately seek second-hand items in the hope of subsequently reselling them at a profit. Virtually the only way in which they acquire second-hand machinery is through part-exchange deals when new items are sold. Consequently the prices at which the second-hand machines are bought—"trade-in" prices—are an important factor in the situation for they fix the lowest price at which the distributor hopes to re-sell.

Towards the end of 1959 (i.e. between the times of the first and second enquiries) trade-in prices and second-hand prices for the major farm machines started to fall quickly. By the spring of 1960, when the fall stopped, prices were from 20%–33½% below their level of a year earlier, according to estimates provided by distributors in different parts of the country. The reason for the

* Approximately one-third of those to whom questionnaires were sent provided replies.

† W. B. Batty, Ford Motor Company Ltd., National Power Farming Conference, 13th February, 1958.

‡ This form of agreement has no bearing on the day-to-day running and management of the firm. In accepting it, the engineer undertakes to stock, sell and service the manufacturer's products to the exclusion of all others directly competitive, and he also undertakes to meet certain minimum staffing, equipment and layout standards. In return, he receives direct financial benefits. Most of those making these agreements are ranked as "distributors" or "main dealers" (the styles vary between manufacturers) and it is through these firms, rather than direct from the manufacturers, that "dealers", "limited dealers", etc., obtain the new machines and spare parts they require.

fall was said to lie mainly in the favourable harvesting weather of 1959 which enabled many farmers to complete their work with their existing equipment. The usual seasonal increase in demand for hay and corn harvesting machinery was not as big as anticipated—in complete contrast with events in 1958—and many distributors were left with expensively purchased machines on their hands.* In the face of slack demand and hampered by capital immobilised in big stocks, distributors were compelled to reduce their second-hand resale prices and their trade-in offers sharply. Not a few distributors are reported as having suffered substantial losses as a result of these price movements.

However, despite this recent fall in trade-in prices, they still appear too high in relation to the price the farmer seems prepared to pay for used machines, for the larger and more expensive second-hand items are reported to be selling only slowly. Consequently second-hand trading is said to be difficult, perhaps even more so than it was when trade-in prices were higher and when most distributors stated they were satisfied to break-even on their second-hand transactions as a whole. Their views on the causes and likely consequences of this state of affairs appear to have remained unchanged.

The majority of distributors held that the reason for these relatively high trade-in prices was simply the "cut-throat" competition that exists in their trade. In order to complete the sale of a new item a salesman is sorely tempted to push the trade-in allowance on the second-hand item above the figure offered by his competitor. On the other hand, a substantial number of distributors were inclined to blame farmers insofar as they stimulated competition by making enquiries of several firms rather than remaining "loyal" to their usual distributor. But, whatever the cause, practically every distributor, no matter in what part of the country he was operating, considered that the present situation not only seriously prejudices the working of the second-hand market, but also threatens the whole future of the trade.

An immediate consequence, it is asserted, is that the distributor is less inclined to carry out overhauls on second-hand machines. The trade-in price is often higher than the resale price of the machine in "ex-farm" condition. In the circumstances, many distributors prefer to accept the "ex-farm" price on resale—and so, in effect, a lower margin on the new sale—rather than incur the risk of further reduction in their margin arising from the uncertainties of overhauling work. In this way the problems connected with overhauling work are avoided and at the same time the capital involved is turned over more quickly.

A more serious long term consequence of the present situation is considered to be a reduction in the quantity and quality of service the distributor will be able to give. If trade-in prices remain relatively too high and distributors'

* The demand for second-hand tractors fell-off at the same time.

profit margins are cut below a reasonable level, then, they claim, their repairs, spares and other services can only be poorer. If this is so, they assert that high trade-in prices are really damaging the farmers' own long-term interests.

The level of trade-in prices is regarded as the crux of the situation. It is a problem which has caused individual distributors and their trade associations* considerable concern. Most other problems, e.g. the supply of mechanics, seasonal work flow, storage space, are considered insignificant in comparison. Some distributors are hopeful that the recent financial losses will teach the less prudent among them the need for sounder policies in future. But at the same time they are cautious about the future for they recognise opposing forces at work—a slowing-down in the overall rate of machinery sales and also a tendency for competition amongst distributors to become even keener.

Whether farmers generally are aware of the distributors' concern over the possible long-term consequences of the present situation seems doubtful. Certainly it has not often been brought publicly to their notice and certainly the farmer's views obtained in the present investigation gave virtually no indication of any awareness. Only one farmer suggested the way to improve the distributors' service was through a reduction in trade-in prices.

Changes Desired

As an indication of the strength of feeling on the present situation only eight distributors stated they were reasonably satisfied. The majority had various observations to make in response to a general question asking for suggestions that would bring about an improvement in the market and in response to other questions which were more specific. The latter concerned the extension of guarantees, the organisation of distributors' businesses, the possibility of distributors holding machinery auctions and the functions of the trade associations and the manufacturers.

A tendency to suggest restrictive measures was a feature of many of the answers. For example, suggestions were made to reduce the supply of second-hand machines by scrapping, by making machines less durable and by restricting spares. Almost as many suggestions dealt with the control of trade-in prices (by the trade), the number of distributors and the types of machinery they handle. Others hoped for greater co-operation between distributors in order to reduce competition. Some advocated greater efforts to export second-hand machines in order to ease the supply position. At the same time, comments were made on ways in which distributors could improve their own business efficiency and ways in which the government, the N.F.U. and farmers could help were also mentioned.

* The A.M.T.D.A.—Agricultural Machinery and Tractor Dealers Association Ltd. and S.A.M.A. in Scotland—Scottish Agricultural Machinery Association.

Trade-in Prices.—The most important single issue was trade-in prices on which a substantial proportion of the distributors wanted to achieve at least some measure of common action aimed at bringing them down and maintaining them at “economic” levels. In this respect they thought members of the trade should show more willingness to help each other, and some thought the A.M.T.D.A. and the manufacturers could both be of much greater assistance.

One of the most effective ways of achieving and maintaining “economic” trade-in prices is considered to be a regular second-hand price guide to which all distributors would adhere in a manner similar to that followed by dealers in motor cars. For the past three years the A.M.T.D.A. has been developing such a guide for the use of its members. As the “Resale Price Record” it is published every two months and records for tractors, combines and balers, the age of machine and the average prices at which sales are made by distributors. Many distributors have apparently found the guide useful, especially when dealing with makes with which they are not particularly familiar. At the same time there were criticisms of it—five expressed a preference for an analysis of buying rather than selling prices, another five stated a desire for regional analyses and others thought efforts should be redoubled to make the lists fuller and more representative. The A.M.T.D.A. is now trying to extend the scope of its service with regard to prices, and since March, 1960, a guide to the market prices of tractors, combines and balers has been made available to all members of the trade. Just a few weeks earlier a private organisation started providing the trade with monthly information on second-hand tractor prices. Their guide presents for each make and model of tractor the average trade-in allowances given during the previous month by distributors in each of six areas of England and Wales and the average prices obtained at public auctions during the previous month, the auction tractors being classified into six groups according to their general condition.

In the opinion of some, the manufacturers could play a bigger part in increasing the usefulness and effectiveness of the guides. Eleven thought manufacturers could insist more firmly on resale price maintenance on new items and five thought manufacturers pressed new stocks too heavily. An obligation on the part of the distributor to keep up with his “minimum quota” agreement with the manufacturer was sometimes said to be met by stepping-up the trade-in price offered to farmers. The manufacturers’ insistence on pressing new supplies therefore aggravated the problem.*

Yet despite the efforts that are put into preparing the price guides it may be questioned whether much will be achieved in this way, for two reasons.

* A part of the “exclusivity” agreement requires the main dealer or distributor to provide the manufacturer with regular returns on stocks and at the same time to provide estimates of future needs. The distributor is expected to take a minimum number of machines during a given period.

First, although many distributors appreciate the guides, others remain convinced that sufficient co-operation in accepting them will not be forthcoming and the mere existence of this attitude must rule out any likelihood of real success. Second, no group of distributors could easily take punitive action against another distributor in connection with the sale prices of such heterogeneous items as second-hand goods, quite apart from the Restrictive Trade Practices Act (1956) which bans outright the collective enforcement of resale price maintenance.

However, disregarding for a moment the likely effectiveness of any joint action, two other probable consequences of a reduction in the general level of trade-in prices need to be remembered. If trade-in prices were reduced, resale prices would also tend to fall and the margin available for overhauls would not necessarily increase. Further, the price a farmer expects to get for his old machine is now proving to be an important consideration when he contemplates buying new. If second-hand values fall more sharply than in the past, the farmer is, therefore, more likely to sanction repairs rather than buy new. Thus there would be a tendency for new sales to decline and for anything other than the short period this could not be viewed with equanimity. (Unless, of course, repair work is as profitable as selling new machines).

Guarantees.—As a consequence of high trade-in prices many distributors claim that they tend to have only a small margin for overhauls. Since little can be spent on overhauls, they consider that little can be done towards improving the quality of second-hand machines and extending the scope of guarantees, the changes farmers would most like to see. However, even if an improvement in quality was thought to be possible, many distributors apparently feel that an extension of written guarantees would, in effect, be unnecessary. Farmers, they consider, if not given a written guarantee* always assume that transactions imply one and expect service in case of trouble. For their part, distributors must deal with complaints fairly if they are to preserve their goodwill and enhance their reputation. The spirit behind the deal and a feeling of trust between distributor and farmer count for far more than formal written documents.

Nevertheless, the widespread doubts about reliability indicate a need for greater efforts to improve the situation and in this respect the soundness of these views on written guarantees may be questioned. Many distributors prefer to sell machines in "ex farm" condition without any extensive overhauls and some farmers prefer to buy this way. These sales obviously carry a greater

* "Warranty" is said to be more correct legally, but "guarantee" is more commonly used. There is reported to be a growing feeling among informed observers that in general the buyer is inadequately protected by law, and that it is possible that the Committee on Consumer Protection recently set up by the Board of Trade may confirm that new legislation is required—"The British Farmer", 2nd July, 1960 (p. 17).

risk in respect of mechanical trouble and the good name of the firm, unless the nature of the deal has been made quite unambiguous. In cases where machines are overhauled and the distributor is fully prepared to stand-by them, the situation would probably be improved by the distributor also stating a fair and unequivocal guarantee in writing. Whatever the quality of the machine, and despite the best intentions, it would seem advisable for the distributor to give a report to clarify his position in case of breakdown at the time the transaction is completed rather than depend upon discussion when breakdowns in fact occur.

Scrapping Machinery.—A controlled scrapping policy aimed at disposing of the glut of poor, obsolete machines now on the market is seen by some as a way of relieving present difficulties. No fewer than thirteen distributors, one-eighth of the total providing information, made suggestions along these lines. Their proposals were not set out in detail, however, and it is doubtful if the implications of the suggestions had been fully considered.

Machines to be withdrawn for scrapping before their economic life has ended must of necessity have a value higher than bare scrap value and the difference between market value and scrap value must be met by someone if any scheme is to operate. It was generally assumed that the manufacturers would meet this cost by way of an allowance or discount to distributors. Further, it was apparently assumed that the farmer presenting the machine to be scrapped would not necessarily be required to buy a new replacement. Presumably it was considered inappropriate to expect this in farming where many of those who use second-hand items cannot either afford or justify new.

In discussing schemes of this nature the attitude of the manufacturers is crucial. At the present time, when overseas markets are good and the home market is not seriously depressed, there can be no great inducement to them to embark upon scrapping schemes which could prove costly. If new sales slumped badly or if an increase in sales was likely to bring important economies of scale in production, then the inducement would be far greater. But in present circumstances manufacturers must presumably consider that they would expend their resources more usefully by trying to increase efficiency in the retail trade rather than by providing discounts indiscriminately to the efficient and inefficient alike.

If for the moment, however, it is assumed the manufacturers are prepared to sponsor a scheme for scrapping and also that it could not be on a "new-one-for-an-old-one" exchange basis, then there still remain other objections to the proposal. The payments made to withdraw the machines would, in effect, amount to a reduction in the price of the new product. Insofar as sales of new items would tend to increase, eventually more and more old items would have to be brought off the market. The scheme would suffer, therefore, from the

disadvantage of becoming increasingly expensive to operate and so increasingly difficult to keep in being.

Discontinuing Spare Parts.—Another suggestion made by one distributor was to render machines valueless by discontinuing the supply of spare parts. In this case, too, the attitude of manufacturers is crucial and it seems likely that they would regard this suggestion as ethically less defensible than a scrapping scheme. Whereas scrapping does allow the consumer a choice of action—either to accept or disregard the discount offered—stopping spares gives him no freedom of choice. Thus from the point of view of fostering good feeling among the farming community the suggestion is not a good one. Moreover the scheme would require complete agreement among manufacturers, yet, given this, the situation would remain unstable in view of the possibility of importing parts. Simply to increase the price of spare parts for older machines would tend to drive old items off the market and at the same time might be quite defensible on business grounds. But again it seems that manufacturers could give help more effectively in other ways without any risk of antagonising farmers.*

Exports of Second-hand Machinery.—The second-hand supply position in the U.K. has been eased a little during the past six or seven years by the export of second-hand machinery and the tendency for this trade to expand each year no doubt encouraged the thirteen distributors who suggested that every effort should be made to expand it still further. Tractors are the major item considered, and since 1953, the first year for which figures are available, exports have been as follows :—

<i>Year.</i>	<i>Second-hand Tractors Exported†.</i>
1953	1,973
1954	2,249
1955	2,190
1956	3,111
1957	3,416
1958	4,913
1959	6,249

Denmark has been the chief importing country, but large numbers have also gone to Eire, Sweden, Norway, the Netherlands and, more recently, to France. Some manufacturers view these exports with misgivings for generally

* It is understood that in fact manufacturers normally plan to provide spares for machines in seasonal use for a period of 25 years after the cessation of manufacture, and for machines in continuous use for a period of 15 years after the cessation of manufacture. After these two periods the spares are withdrawn to a limited central stock.

† Source : “Accounts relating to Trade and Navigation of the U.K.” H.M.S.O.. Returns of second-hand items are required only for tractors.

poor machines have gone overseas for rebuilding there, and they recognise the risk that their reputations may suffer if unsatisfactory machines get into the hands of farmers abroad and the repair and servicing facilities are inadequate. But distributors have welcomed the opportunity to dispose quickly of machines that may have been slow to sell at home, particularly as buyers have not had to be found nor repairs carried out. In total, the effects of second-hand exports upon home supplies may not have been great, but at the same time they have probably not been insignificant. In 1959, 43,420 new wheeled tractors were dispatched to the U.K. home market* and it is perhaps reasonable to assume that almost as many came on to the second-hand market for the first time. These, together with older second-hand tractors which changed hands during the year would have brought the number of transactions involving a second-hand tractor to well above 40,000, but it seems likely that the 6,249 exported in the year represent a by no means negligible proportion of the total turnover. Nevertheless exports appear a rather uncertain factor for the individual distributor to place much faith in, despite the recent fall in second-hand prices which may give additional impetus to the movement.†

Less Durable Machinery.—An opinion expressed by one distributor and which may be shared by others was that machinery could to advantage be less durable. Many machines, he felt, were built to last for too long and a reduction in durability would mean lower prices, more machines sold and quicker turnover. Whether sales would expand significantly in response to what is likely to be a relatively small fall in price is open to question. Moreover, farmers attach a great deal of importance to quality and durability. It seems unlikely, therefore, that they would buy “economy” machines either new or second-hand and, if this is so, the proposal would not help to improve the market. The only real test would be to confront farmers with a choice, but it seems improbable that it would pay any manufacturer to reduce the quality of his products and to introduce “economy” models under the conditions of competition which prevail in this country at the present time.

It seems realistic to assume that none of the suggestions discussed so far—agreement on trade-in prices, controlled scrapping, restriction of spares, increased exports and reductions in durability—are likely to bring about any substantial, long-term improvement in the present situation as far as distributors are concerned. Improvements must come in other ways, mainly

* Estimates based on Manufacturers' Returns collected by the Departments of Agriculture and the Board of Trade. Ministry of Agriculture, Fisheries and Food; Machinery Section. Ref. AM 39434B.

† During the first half of 1960 a total of 4,268 tractors went overseas and the monthly pattern suggests that something more than double this number may be exported in the year.

through changes in organisation and greater efficiency within the individual firm. The fact that some distributors, admittedly a small minority, reported a reasonably satisfactory second-hand trading position, suggests scope for improvement by those who find cause to complain. Indeed, within the farm machinery trade, as in all other trades, there must be marked differences in business efficiency. Any attempt at improvement will, it appears, receive every encouragement from the manufacturers and the trade associations.

Business Organisation.—A great deal must always depend upon the firm's buying policy—whether prices offered are based mainly upon competitors' offers or mainly upon a careful assessment of mechanical condition, the likely cost of overhaul and resale value. With a new sale in the balance, the temptation to offer a little more than costs and resale value strictly indicate may be very great and understandable, but the outcome will be a loss on the second-hand item. A loss on one transaction may be of little consequence, but one deal permitted on a purely competitive basis may encourage salesmen to believe that others will also be allowed. Unless the policy of fixing buying prices is determined without undue regard being given to competitors' policies the firm is likely to suffer from slipshod buying. A policy of this sort requires competent buyers, for the evaluation of a machine demands long experience based on sound training. Those who buy need a different attitude, a different approach and a different training from those who sell. Yet the great majority of distributors require their representatives to both buy and sell. This arrangement must stem partly from the small size of most distributors' businesses but also partly from custom. A change may be difficult, but firms may find it beneficial to separate buying and selling and allow their staff to specialise in one or the other, at the same time ensuring that they always work closely together.

The organisation of overhauling and repair work also has a considerable bearing upon the efficiency of the firm and, as a rule, it will become easier to arrange this work as the firm grows larger. The larger firm will find it easier to keep a section regularly and fully employed on overhauls. This will allow greater specialisation by mechanics, a fuller and better use of equipment and tend to cut "non-productive" time. The measurement and control of costs will be easier, partly because the machines will tend to pass through more quickly. Quicker handling will also reduce the risk of second-hand stocks impeding new sales. Conversely, with smaller firms, overhauling work and the work involved in meeting the day to day requirements of customers overlap and the benefits derived from specialisation, uninterrupted work and cost control correspondingly decline.

Some firms have developed these full-time specialist sections and others are hoping to do so. Those with experience speak in favour of the arrangement.

They endeavour to deal with batches of the same machine and sometimes tend to specialise in one particular machine. Their aims, in addition to reducing costs and speeding output, include that of having reconditioned machines available when seasonal increases in demand occur. Other firms—the majority according to the information available—find they are unable to have staff continuously engaged on overhauling work for even part of the year. They consider their work loads too small, too varied and too seasonal to permit the arrangement. In some cases premises are thought to be too small. Obviously with many present-day firms specialisation is impossible, but at the same time certain comments provided in the answers suggest that some could move farther in this direction. For example, there were those who doubted whether costs would be reduced or turnover increased, speaking possibly without the benefit of actual experience.

External operations including display and advertising require no less careful consideration than that given to internal operations. The main aim should be to foster and sustain among farmers a feeling of confidence in second-hand items. In practice, advertising appears to be haphazard and half-hearted rather than regular, vigorous and convincing. Possibly this is due to some extent to the fact that many distributors—a little more than half in this study—advertise only occasionally. This is unfortunate since the success of advertising depends partly upon its regularity. Advertising could, perhaps, be extended more nearly throughout the year by attempts to persuade farmers to buy second-hand combines and balers out-of-season, so reducing stocks created by the manufacturers' discount programmes. Within the framework of the trade as a whole, a lack of advertising can be regarded as a shortcoming tending to make the market more imperfect by failing to disseminate to the fullest possible extent information on prices and qualities.

Displays must be related to advertisements and separate well-arranged second-hand stands must also help to create confidence and attract buyers. In some cases a lack of space was reported as a serious handicap, but in others second-hand equipment seems to be hidden in inaccessible parts of rather untidy yards.

Distributors' Machinery Auctions.—A further question asked was whether distributors could speed the turnover of second-hand machinery by holding, either individually or jointly, their own collective auctions where each piece of equipment was backed by the distributor's name. The aim would be to attract farmers to a regular, well-advertised sale and eventually establish a market place of repute with prices higher than those at the usual type of public auction.

The answers indicate that in some areas, e.g. West Wales, the small number of second-machines usually available makes such schemes unnecessary, but even in areas where numbers would justify it, the majority were not in

favour. Rather more than half the 79 distributors who expressed an opinion were against the suggestion, a quarter were sceptical, but a quarter thought it held possibilities. The latter considered the guarantees might be graded, and if launched with sufficient enthusiasm the scheme could help to create confidence. Admittedly acceptance of auctions so arranged would in most cases require a complete change of outlook since distributors usually regard present-day collective auctions as welcome outlets for their obsolete and least reliable items. Buyers are aware of this and consequently prices are low. The view that prices would inevitably remain low, that expenses would be high and returns generally uneconomic—the comments most frequently given—may in some cases merely reflect impressions or experiences of existing collective markets rather than considered opinions on the proposal. Quite obviously participants would have to be whole-hearted and be prepared to keep to certain regulations, but the fear that co-operation in doing so would not be forthcoming was another objection raised. Some thought distributors would be reluctant to commit machines to a sale to be held perhaps some weeks hence. Finally, some were of the opinion that harm would be done by loss of individual contact between distributor and farmer. Provision of the seller's name should ensure that contact is not lost, although machines sold comparatively far afield may present new servicing problems. Certainly, however, auctions of this type would not be justified unless they helped to improve confidence in the trade.

Assistance from Manufacturers.—Ways in which the distributors thought the manufacturers could help have already been discussed—e.g. by scrapping machines and by actively supporting a second-hand price guide—but further suggestions were made. Two present policies which were said by some to increase second-hand trading difficulties are the manufacturers' out-of-season discounts on new items and their "exclusivity" agreements with distributors. It was pointed out that under the out-of-season discount schemes the manufacturer requires immediate payment for the new machines he supplies, whereas the distributor is often left with the consequent "trade-ins" on his hands for several months until the next season comes round. Storage space as well as capital are tied up for quite significant periods. Four distributors felt a need for longer credit in order to surmount this problem. The "exclusivity" agreements also came in for criticism in that they made spares less readily available and increased their cost to the distributor without the agreement. Further, distributors realised that their "exclusive" machines were not always the best on the market, and this sometimes placed them in a difficult position with regard to advising their customers.

Certain distributors advocated more drastic measures by the manufacturers, although it seems unlikely that they had considered carefully how their proposals would be put into effect. Three thought the number of retail

outlets should be reduced and five that the manufacturers should reward good service, penalize those who provide a poor service and exercise greater control over distributors' terms and working areas.* Already "exclusivity" arrangements give the major manufacturers a considerable influence over distributors' organisations and the system of allowing "main dealers" (as opposed to "dealers" and "limited dealers") bigger margins, is said to enable these distributors to give bigger trade-in allowances and to attract more and more trade to themselves. This must tend to reduce the number of firms and increase the size of those remaining. To suggest rewards for good service and penalties for poor service sounds reasonable, but it could present difficult problems of judgment and one would expect manufacturers to regard the firm's profit level as the least arbitrary adjudicator of efficiency.

Finally, one distributor expressed the opinion that the members of his trade were really quite unaware of the high cost of selling and another that accounting and costing methods could be improved.† A third thought distributors needed "education" on second-hand market problems. A further four thought manufacturers should help more vigorously with machinery reconditioning schemes and with selling campaigns. There is no doubt that in each respect a great deal needs to be done, and it is unfortunate that many distributors' businesses are just a little too small to justify the employment of a full-time accountant. But it seems true to say that the major manufacturers are becoming increasingly willing to give every assistance along these lines and to give help on any problem in their efforts to increase the distributor's efficiency. Nevertheless, on seemingly straightforward matters, it appears to some distributors that manufacturers do not do everything possible to help, e.g. serial numbers are not always systematic and simple with the result that it is sometimes very difficult to know the age of a machine, and the reason why so little headway seems to be made with the problem of standardising parts is for some difficult to comprehend.

Assistance from Trade Associations.—Two-thirds of the distributors who gave information expressed their views on the part the A.M.T.D.A. could play in connection with second-hand trading. Twenty-nine, or almost half those expressing an opinion, doubted whether the Association could offer any effective help and all but a few of those who made positive suggestions concerned themselves with the improvement of second-hand price lists and ways in which members could ensure that the wishes of the majority were followed. The suggestions which were exceptional to the general run were to seek and collate information on serial numbers (by one distributor), to circulate "available

* Working areas for each "distributor" (and "main dealer") are delineated by the manufacturers.

† Standardised accounting and costing procedures could be an indirect way of attaining greater price uniformity.

machinery" lists (1), to provide an advisory service to would-be buyers of second-hand machinery (1), to sponsor education in economics of "fair" trade-in prices (1), and to sponsor "grades of distributor" scheme (1).

Other Suggestions.—and lastly, the N.F.U. and the Government were mentioned by some. Two distributors thought the N.F.U. could to advantage advise its members on the trade's net profit position and on the long-run dangers to the quality of service of the farmer's practice of "hawking" machines from one distributor to another. Three distributors hoped for better farm prices to bolster farm incomes, one for bigger wear and tear tax allowances and one for grants on the purchase of farm implements similar to those given in connection with farm improvement schemes.

4—MANUFACTURERS AND IMPORTERS

Eighteen manufacturers and importers of agricultural machinery provided comments on the present situation in the second-hand market. They included most of the largest and well-known firms in the country, for although there are several hundreds of firms producing agricultural machinery and spares, output is concentrated in a small number of them. It has been estimated that in 1955, the latest year for which figures are available, seven firms, all manufacturers of tractors, accounted for 85% of the total output.*

The close relationship between the new and second-hand market and consequently the importance of the second-hand market to the manufacturer has already been discussed. Five manufacturers stressed the importance of the second-hand market to the individual distributor and the fact that he must accept trading in second-hand machinery as an integral part of his business. Success in stimulating demand for second-hand machines is not only desirable in itself, but also means that the sale of new machines is unlikely to be hindered as a result of capital being immobilised in second-hand stocks. Yet, despite these close links, one big manufacturer finds that "the attitude of our county distributors and their dealers towards second-hand equipment varies a great deal. Some of them accept whole-heartedly that the sale of second-hand equipment is as much part of their business as the sale of new machines . . . others are still living in the past and tend to regard every trade-in as an unwelcome complication of a sale". Although the latter are regarded as the exception rather than the rule it seems clear that not all distributors have adapted themselves to the post-war growth in trade.

The majority of manufacturers fully recognised the existence of trading difficulties in the second-hand market, including the risk of a decline in the

* "The U.K. Agricultural Engineering Industry", Central Office of Information, London. Ref. R4126.

quality of the distributor's after-sale and other services as a result of excessive trade-in prices. At the same time, not all of them felt that distributors are affected too adversely by present conditions. An essential factor in success is a sound buying policy and many distributors are not considered to be sufficiently rigorous in their buying policies. For example, it was thought distributors should decide not to buy and re-sell tractors and other equipment beyond a certain age, other than at scrap prices and regardless of condition. To avoid offence, they could offer to advertise the equipment or put it up for auction on the customer's behalf. Until the buying policies are appropriate, reasonable second-hand values will not be established. But in deciding policy, the distributor must not forget that high trade-in prices are a considerable attraction to farmers to buy new equipment.

Other factors are, of course, important and the opinion was expressed that distributors could be much more energetic in their search for new outlets for second-hand items. For example, "more could be done to persuade a one-tractor farmer to keep two, or a non-tractor smallholder to use one. Also many could be placed in semi-industrial applications that would never justify the initial cost of new equipment." The need for second-hand machinery to be presented attractively and for junk to be sold as scrap and kept out of sight in the meantime were also mentioned. In short, all the factors that go to make a successful business must be taken into account. To quote one manufacturer "the present situation owes much to the fact that many farmers are shrewder business-men—even shrewder salesmen—than many dealers."

Nevertheless manufacturers give advice and assistance to distributors and some of the ways in which they do so have already been discussed. Comments in this connection were made by the manufacturers themselves. One regarded a major problem as being that of persuading the farmer of the wisdom of buying from the distributor who offers the highest quality service on his new machine, rather than from the one who offers the highest price on the item traded-in. He suggested that as some compensation for a lower trade-in price the manufacturer could provide helpful advice on the economic benefits of improved machines and methods and on how best a machine should be used on any particular farm. Another manufacturer repeated a suggestion which was made by some distributors, viz., that more could be done to bring about realistic trade-in prices by encouraging the giving to second-hand tractors when they are sold the benefit of a warranty. Yet another wrote—but without amplifying the notion—that more help could be provided by "giving encouragement and advice to distributors who make a genuine effort to overhaul and service second-hand machines" and this also is a suggestion that was made by certain distributors. The same writer pointed out that distributors can hardly be expected to maintain stocks of spares for machines ten, fifteen and over twenty

years old, and that manufacturers who are responsible for the total population of each model that has been built can and should maintain spares stocks for a generous period after the date that a particular model goes out of production.

Help can be and is being given along these and other lines with the ultimate aim of encouraging complete acceptance of second-hand trading, sensible buying and selling policies and a reputation for sound service and fair dealing. The general feeling among manufacturers appears to be that there are no short-term substitutes for these long-term business standards. The remedy lies in this direction and not in attempts to regulate the trade.

However, despite the fact that manufacturers are anxious to see a smoothly running second-hand market some of the policies they pursue in competition with each other are said to make second-hand trading more difficult. The number of manufacturers and importers has increased in recent years and each has sought outlets, which are often competitive, for their increasing flow of products. Retailers have been pressed increasingly hard to sell the machinery provided and in consequence they probably have become open to the temptation to do so by pushing trade-in prices higher. Moreover, by no means all the machinery produced has been of good quality and indeed a great deal of poorly designed and poorly made machinery is now tending to clutter the market.

Yet seemingly in complete contradiction to the observation that present difficulties are due in part to increasing competition between manufacturers was a further observation that the home agricultural engineering industry and distributing trade is suffering from a lack of competition and the consequences of a period of easy profits. Restrictive practices in the factories and in the manufacturers' selling policies (e.g. restrictions on the number of retailers to which the manufacturers will sell direct, on the number of makes retailers may handle and on the areas over which they may trade) are said to be causing prices and margins* to be too high and tending to shelter the inefficient. A reduction in import duties† was also advocated as a constructive step which would give greater freedom to bring on to the market new types and designs of machines from wherever they happened to be developed. This, it was asserted, would tend to bring down home prices, which would entail smaller margins, but lower trade-in prices and a generally healthier and more efficient industry and distributive trade would follow. Certainly, in support of this argument, some distributors feel that the prices of certain machines are too high.

The belief on the one hand that troubles have been created by too much competition and on the other by too little competition may perhaps be reconciled

* Approximately 20%-25% of the wholesale price.

† Now, for example, from about £70-£250 on a combine, according to type.

by reference to the structure of the home industry. At the present time it is dominated by two concerns which are competitive in many ways, but are by no means waging a price war against each other. The firms appear sufficiently respectful of each other's strength for their prices to be on a par for similar machines, but beyond this, each seems to prefer a state of peaceful co-existence. If this is so, the two beliefs are compatible and there may well be truth in both of them.

5—DEALERS

Dealers who earn their living mainly by buying and selling second-hand farm machinery are few in relation to the number of distributors and the amount of machinery they handle must be only a small proportion of the total second-hand trade; nevertheless the way in which they operate in the market provides some interesting features.

Types of Business

Almost without exception second-hand dealers operate on a small scale, often combining some farming activity with their machinery dealing. Most of them appear to employ no more than two or three men, own one lorry and very little in the way of buildings, tools and other repair equipment. One employee is usually a full-time lorry driver and the other one or two help prepare machinery for sale. For the most part this preparation consists of cleaning and painting and sometimes welding and replacing parts, the latter often taken from "cannibalised" machines. Generally no thorough overhauling is carried out.

There is some specialisation with regard to the type of machinery handled. One will tend to deal mainly in tractors, another in combines, another in combine-drills, for example, but at the same time each is usually prepared to buy and sell all types. For preference, it seems, dealers buy rather shabby and dilapidated machines of types which are in popular demand. By cleaning and painting these may be made to look attractive to prospective buyers.* They are also on the look out for cheap machines which may be sold quickly in an "ex farm" condition, i.e. without any work being carried out on them. Some machines are purchased out of season, but the capital-standing of many dealers is such that only a very limited amount of machinery can be carried in stock. For this same reason, purchases must often be restricted to machines which are comparatively cheap.

* Painting is considered by some auctioneers to be of doubtful value. They stated that they sometimes felt it created feelings of suspicion and detracted from the value of machines.

Dealers usually effect sales without giving any guarantee or warranty, although a few of the biggest are quite prepared to stand by their machines. Most of them will accept hire purchase arrangements, albeit with some reluctance. A few advertise regularly in their local press and in the national farming press.

Often dealers travel far afield in order to buy and sell. Those from the West Country and Wales regularly visit the Cambridge monthly machinery market (the largest of its type in the country) and other intermediate machinery markets. Dealers in the south of England go to the Midlands and a few even travel occasionally to the North and to Scotland. Similarly, those in the North come south to carry on their business. As a result, they are often congregating at the same markets and many know each other personally.

Buying Sources and Selling Outlets

Machines are bought at collective machinery auctions and farm sales, and local distributors often provide dealers with what are usually their poorest and most suspect items. Occasionally, when distributors' "out-of-season" stocks are large, better machines are purchased from them and often, it seems, in these circumstances the bargaining is hard.

Machines are sold at machinery auctions and direct to farmers, some tending to prefer one outlet and some the other. The dealer's choice presumably reflects, in the main, his opinion of the relative profitability of the two outlets.

An important factor in determining the popularity of market auctions among dealers is the market regulations. Some auction authorities allow any unsold machinery to remain at the market until the following auction (not less than a month later) merely for the payment of a second entry fee. Other authorities require more or less immediate removal of anything left unsold, usually because space is strictly limited and required for other purposes. Transport is one of the dealer's biggest cost items, and if machinery has been brought perhaps 100 miles to the auction, then freedom to allow it to remain for at least two auctions is obviously an important consideration. In the hope of avoiding transport costs altogether, items purchased are sometimes left at the place of purchase and offered for sale at the following auction. Often the dealer's reluctance to move machinery causes inconvenience and no little annoyance among auctioneers.

Assessment of Services

Almost daily attendance at sales ensures that dealers are very fully informed on current levels of second-hand prices and of any regional differences in those prices. Some of those questioned considered themselves much better informed on the subject than most distributors and this is no doubt so. From their special knowledge of prices and what are popular machines in a particular

area stems the dealers' profits. They can quickly recognise the chance of a profit, even one of no more than a few pounds. In this respect they are helped by knowing each other for a dealer will telephone others in his search for a particular machine.

Insofar as dealers succeed in bringing machines from areas where they are not in demand to areas where they are in demand they are obviously performing a useful marketing function. Often they will succeed in getting the particular model or type the farmer needs. These are services which most distributors, acting as they do in only one particular locality with no branches in other localities, are less well able to perform. Usually dealers' prices are low in relation to distributors' prices, to some extent because they buy cheaply, and to some extent because their other costs are low. With no extensive premises, office staffs and service vehicles to maintain, "overheads" are at a minimum. But their prices tend to be low also because no guarantees or after-sales service are given.

It was reported that, generally speaking, dealers who are buying at an auction will not knowingly bid forcefully against each other. As a result, vendors often suffer by not getting the price they would under completely competitive bidding.* Dealers gain by gathering together after the sale and holding a "knock-out" and this must be regarded as a less satisfactory part of their activities. It is an arrangement whereby dealers auction amongst themselves the various items purchased. The difference between the price actually paid to the sale auctioneer and the highest price bid amongst themselves is shared between them, e.g. if dealer A buys a machine for £100 and during the "knock-out" bids are made as follows :—A £110, B £120, C £130, D £140, then D has the machine and £40 is shared among the four according to the bids each made, i.e. 1 : 2 : 3 : 4 respectively. Dealer D will not only pay £100, but also £4 to A, £8 to B, and £12 to C, and he himself "receives" £16 in that he pays £124, although he was prepared to pay £140. A, B and C each get some "reward" for foregoing their interest in the machine. It is probably true to say that the sums shared are often quite small, but a dealer may easily "earn" £5 in this way by attending a sale. However, even dealers are not without their problems for it was reported that the "knock-outs" attracted "hangers-on", those who signify an interest in a particular machine but whose real interest is suspected to be no more than a part of the sum shared out.

To sum up, it may be said that "knock-outs" and, perhaps more especially, the general lack of guarantees are the unwelcome features of dealers' activities. At the same time there are those who welcome dealers as buyers of second-hand machinery and those who welcome them as sellers. By their activities

* One auctioneer's opinion was that a "reserve price" is the seller's best weapon against dealers who "gang-up", but he considered also that auctioneers recognise that it is always incumbent upon them to do their utmost to safeguard the seller's interests.

they are in effect disseminating information on prices and perfecting knowledge of the market. Moreover the mere continuing existence of dealers in business confirms that they perform some useful functions in assisting the flow of second-hand machinery.

6—CONCLUSIONS

The market in second-hand farm machinery is important alike to farmers, distributors and manufacturers and the principal aim of this study has been to set out the current views and problems of these three groups.

The function of the market is not only to satisfy the requirements of farmers who cannot afford or do not wish to buy new machines, but also to encourage those who do in fact buy new. Without a second-hand market the trade in new machines would decline sharply and the more successfully it operates, the more successful will be the new trade. The second-hand market must, therefore, be accepted as an integral and vital part of the total trade in farm machinery. Moreover, as far as farm machinery is concerned, in view of the prevalence of "trading-in", this means that it must be accepted by those whose primary concern is with selling new items.

Since the war the growth in machinery sales has been enormous and generally easy. To the distributor it has involved sudden expansion and brought easy profits. It has also perhaps tended to lower business standards. Now, when the seller's market has become a buyer's market and trading is more difficult, further but different changes are required and any deficiencies in business management are being shown up.

Broadly speaking, market conditions have recently tended to move in favour of the farmer at the expense of the distributor. Nevertheless, for various reasons, many farmers are by no means satisfied with the second-hand market as a source of farm machinery. The most important reason reveals doubts about reliability and a general lack of confidence. Farmers would welcome an improvement in the quality of second-hand machines and frank statements on their mechanical condition. They would also welcome more genuine advice and assistance on the wisdom of buying second-hand, sometimes in place of persistent efforts to sell new regardless of farm management circumstances and misleading statements on the value of income tax allowances. If distributors wish to speed and increase their second-hand sales they must do their utmost in these respects and not in any way regard the farmer as a possible outlet for poor machinery and unsound advice. Comments provided indicate that certain distributors are marketing second-hand machinery to their customers' general satisfaction at present price levels which suggests that scope to meet the farmers' wishes exists for others less fortunately placed.

However, most distributors are also far from being satisfied with the present second-hand situation, reporting low profits and difficult trading problems. Various reasons are advanced by way of explanation, but there can be no doubt that the underlying cause is simply excessive competition amongst themselves—admittedly fostered somewhat by both manufacturers and farmers—in relation to the level of demand. Many distributors look for relief to collective measures such as price guides, scrapping schemes and increased exports and no doubt some benefits may be obtained in this way. Benefits may also be derived by exhorting fellow-distributors not to indulge in patently unsound trading practices. But the risk exists that the distributor who continuously advocates a change in attitude on the part of other distributors will be diverted from the more important task of keeping his own business in first class order. There are distributors who feel able to cope adequately with the situation and who are determined to act independently. There is also the Restrictive Trade Practices Act of 1956 which debars collective, punitive—and, therefore, effective—action against any individual in the matter of resale price maintenance. This must surely mean that the opportunities for improvement lie mainly in the field of greater efficiency within the individual firm and that efforts must be primarily in this direction.

In certain important aspects—e.g. workshop organisation, buying and selling methods, capital resources—advantage may lie with bigger firms permitting greater specialisation. The long-term tendency may be for firms to grow larger. In the immediate future, however, it appears that much can be done within existing organisations, including better accounting and cost control, advertising, displays and so on. The A.M.T.D.A. has recently instituted a national survey of operating costs and returns in order to provide standard profit figures and so enable distributors to judge their own positions. The Association is also sponsoring a spare parts disposal scheme, a register of second-hand machinery, a standard order form, as well as other services. The manufacturers are also prepared to help in practically every aspect of retail trading.

These projects obviously do not preclude the trade from voicing its difficulties to farmers. It may justly claim that any process which squeezes the retail trade must lead to ill-effects being passed on to farmers themselves. Yet it seems that little is done to publicise the distributors' case widely and convincingly. The outsider is unable to make even a *prima facie* assessment of their position since any information on the relative levels of trade-in, resale and auction prices and on repair costs, which is at all comprehensive, is readily available only to the trade and to certain manufacturers. Those distributors who merely hope for a change in the attitude of farmers with regard to getting the best possible prices for the machines they wish to exchange are surely indulging in wishful thinking. Positive measures are needed and certainly no

avenue should be left unexplored in efforts to improve the market so that farmers may derive the greatest possible benefits from second-hand machinery and distributors may handle it profitably.

APPENDIX

COLLECTIVE MACHINERY AUCTIONS

The sales of second-hand machinery and implements which are held regularly nowadays at a number of centres—the so-called “collective” sales or auctions—are an important part of the marketing system. Organised usually by firms of auctioneers, and occasionally by distributors themselves, they are held in various centres throughout the country.

This type of sale arose in the early war years, some of the first in 1940 and 1941. The reason lay essentially in the keen demand that existed at that time for second-hand machinery of practically every description since the pre-war marketing systems—mainly the farm dispersal sale and the deal between machinery distributor and farmer—were not sufficiently regular and direct for the greatly increased requirements of war-time. Collective sales, which provided an additional source of profit for auctioneers, filled the gap.

Throughout the war and until the early 1950's the collective selling centres became increasingly numerous and sales more frequent, for supply and demand conditions were such that many buyers were usually prepared to pay the maximum resale prices which the government laid down for particular machines.* Then, from about 1953 onwards, the situation began to change until at the present time selling both new and second-hand machinery is much more difficult. Nevertheless, the main market centres are continuing their activities and it is probably true to say that most auctioneers would be reluctant to stop their sales altogether, unless, of course, profits dwindled completely, for they do provide a certain amount of publicity and proclaim the auctioneer's interest in machinery.†

The most frequent sales are held monthly at just a few centres, which include Cambridge, Dorchester (Dorset) and Reading, and every two months at centres which include Lichfield (Staffs.) and Sleaford (Lincs.). The less frequent sales are quarterly, half-yearly and some just yearly. Some take place on reasonably spacious sites, but others are held within the precincts of the livestock market where space is limited and only available for machinery for short and strictly enforced periods. These limitations tend to create problems for the sellers and to reduce their willingness to attend. They must,

* In the circumstances lots were drawn to decide who was to have the machine. Moreover, in Reading, at least, would-be buyers were required to pay a sum—£1 or so—to an organisation such as the Red Cross Society before their names were put into the hat. The price of certain second-hand machinery and plant, including tractors, implements for use with tractors, and certain other agricultural machinery, was controlled from June, 1942, to July, 1948. The maximum price laid down was the retail list price at June, 1942.

† Some auctions have been given a fillip in the past few years by the appearance of European buyers.

therefore, tend to restrict the growth of the market for obviously a big factor in the continuing growth of a centre is the success with which it attracts buyers and sellers—farmers, dealers and distributors—not just from surrounding districts, but from far afield. Another important factor determining the success of a centre is the service given by the auctioneers themselves. This concerns not only their skill in extracting bids and in dealing with disputes as fairly and amicably as possible, but also their speed in paying sellers, in collecting and transferring tractor log books, and so on. As with practically all livestock auctions, transactions are on a cash basis. Buyers are required to make their payments on the day of the sale or before taking delivery of their purchases, and cannot resort to any system of deferred payment. Sellers pay the auctioneer a commission, usually at 5% of the sale price, and also a smaller charge is payable on unsold items. Prices, in common with those elsewhere, show seasonal changes for seasonal machines, rising just before and during the season and then falling away.

The sales vary considerably in size, ranging from about 500 to 2,500 lots sold in one day. The number of tractors offered may be anywhere between about 10 and 250, at the one extreme being Cambridge where 200–250 are available each month. Machines and implements are predominant, but practically any piece of farm equipment may be included. For instance, such items as tools, tarpaulins, fencing stakes, ladders, gates, tyres and poultry and pig equipment will usually be found.

Opinion generally appears to be that auctions are concerned in the main with poor quality items and this impression is perhaps confirmed by the fact that prices tend to be comparatively low and by the fact that at some centres the items are offered for sale without any description of quality whatsoever. At a few centres some items are offered with a “guarantee” or “warranty” for a month or more and at other centres at least a proportion of the items are described as being “in working order” or “in good working order” or in similar terms. The auctioneer’s “conditions of sale” will normally state that these descriptions have particular meanings and use of them by the seller ensures that the purchaser has the chance of some redress if he disputes the correctness of any description. However, if the purchaser does have cause for complaint, the auctioneers almost invariably lay down that the purchaser must provide them with a qualified engineer’s certificate of the alleged defect not later than four or five days after the date of purchase and such a time limit obviously seriously reduces the value of the warranty. Nevertheless, buyers probably find the descriptions reassuring and no doubt the sellers usually give them in good faith.

To some extent it seems true to say that auctioneers’ machinery sales are complementary to the second-hand sales made by distributors—distributors tend to handle the better second-hand machinery and auctions the poorer

second-hand items. They provide an outlet for farmers with machinery which is unacceptable to distributors, an additional outlet for the distributors themselves, as well as for second-hand dealers. They also perform a useful function in that machinery is often sent to them from over comparatively wide areas and buyers are often attracted to them from far afield. Moreover, they sometimes provide the buyer with a wider range from which to choose than is available at any one time elsewhere. In these ways collective sales are providing the means by which knowledge of the type and range of machines available and of second-hand prices may be more widely disseminated and supply and demand more nearly equated.

