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FARM MACHINERY OPERATION: 14

Selected Cooperatives



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## PREFACE

This study was undertaken to evaluate the operations of 14 cooperatives that sell and service farm machinery. Detailed objectives were to determine the types of services provided, policies followed, capital required, and volume needed to realize reasonable net margins.

The 14 cooperatives with the largest farm machinery sales were selected for this study from about 125 cooperatives in the United States that handle farm machinery as franchise dealers for major manufacturers. Records and information were obtained by personal interview with their managements. They were located in Maryland, Virginia, Maine, Ohio, Indiana, Illinois, Michigan, Kansas, Nebraska, North Dakota, Washington, and Oregon (figure 1). One cooperative was a farm machinery operation exclusively, three were farm supply-purchasing cooperatives, and 10 were engaged in both farm product marketing and farm supply operations.

Cooperatives other than the 14 described in this study also are franchise dealers for leading farm machinery manufacturers. Their services to farmers, along with selected data on the 14 cooperatives, were reported in FCS Information 86, "Cooperatives' Farm Machinery Operations." These cooperatives were surveyed by mail questionnaire to determine the extent of machinery operations; policies and services in handling farm machinery and the problems encountered in operating farm machinery dealerships.

In this study of the 14 largest cooperative dealers, guidelines are presented that managers believed would aid in handling the problems of machinery management and would improve services and operation of a cooperative farm machinery business.

May 1973

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## HIGHLIGHTS

The 14 cooperatives evaluated in this study sold more than \$11 million worth of farm machinery and equipment in 1968--an average of \$808,000 each. Sales of new machinery and equipment comprised two-thirds of total sales; used machinery and repair parts accounted for the other third. The cooperatives reported total net margins (savings) of more than \$400,000, averaging \$33,485, or 4.1 percent of sales in 1968.

New machinery accounted for 50 percent of the total machinery and parts inventory. Repair parts accounted for 29 percent and used machinery for 13 percent of the total. The remaining 8 percent was made up of other light farm equipment.

Total capital in use averaged \$690,000 per cooperative. Average inventory accounted for \$440,000, or 66 percent of the total; accounts and notes receivable, 18 percent; fixed assets, 13 percent; and cash on hand, 3 percent.

Local banks, the main source of credit for machinery purchases, supplied 43 percent of the capital farmers used to purchase machinery from the cooperatives. By supporting notes from various sources, local banks actually provided more than half the farm machinery credit that farmers used. Cooperatives provided 12 percent of machinery purchase capital, and indirectly, through cooperative banks, about one-fifth of the credit.

The 14 cooperatives began handling machinery as far back as 1917--more than 50 years ago. They averaged 33 years as full-line franchise dealers, although several started as recently as 20 years ago. All but three of the cooperatives handled the same make of farm machinery in 1968 as when they started in business. Ten cooperatives franchised one full line and several short lines of machinery. The other four carried two full lines and several short lines.

All cooperatives reported making special efforts to provide good service and repairs, including shop repair work, reconditioning, and on-the-farm repair. They believe such service brings repeat sales of machinery.

All cooperatives used newspaper and direct mail advertising. Most used radio and some used television for occasional special promotions. All said personal contact was the most effective but also the most expensive way of making sales.

## Recommendations

Suggestions for cooperatives now handling machinery and for those contemplating handling machinery as franchise dealers follow:

1. Obtain management with a special interest and know-how or experience in dealing with machinery. Handling machinery successfully is a difficult and specialized business.
2. Employ competent personnel, provide training opportunities for them, and pay them accordingly to compensate for training and experience. For a beginning farm machinery department, cooperatives recommended six employees--a department manager, a salesman, two mechanics, a parts man, and a bookkeeper.
3. Obtain adequate capital. The large cooperatives believed a minimum capital of \$275,000 would be needed for annual sales of \$500,000. Smaller successful cooperatives, however, believed that a minimum of \$100,000 would be sufficient for a volume of \$250,000 a year.
4. Develop an adequate volume through aggressive sales methods. Officials of the large cooperatives believed minimum sales of \$500,000 a year were necessary, while the smaller associations indicated \$250,000 would allow a break-even operation.
5. Carry a full line of farm machinery, and several short lines to supplement the full line and provide reliable service. This is a must to succeed.
6. Properly evaluate used machinery trade-ins. Handling used machinery on a sound basis is one of the complex problems in the machinery business.
7. Set up a machinery department with a separate budget and operating statement. Separate operating statements are a necessity if management and the board of directors are to know the status of operations and be able to pinpoint where and when improvements are needed.
8. Determine the equipment and service needs of farmers. This includes the potential market in the area served; needs and desires of farmers with different enterprises and sizes of operations; and the demand for custom or leasing services.

## FARM MACHINERY OPERATIONS: 14 SELECTED COOPERATIVES

by Lloyd C. Biser<sup>1/</sup>

Farmers spend almost \$5 billion for farm machinery, equipment, parts, and repairs each year. This is about 25 percent of their total expenditures for farm supplies and equipment--ranking second in amount to feed. While prices of farm commodities were stabilized in 1970 at a lower level or declined since 1951, farm machinery prices have increased every year since then.

The manufacturing of farm machinery is concentrated in a relatively small number of firms. Comparatively rigid prices are maintained by a few large companies that influence wholesale and retail markets for the industry. Because production is managed, prices of farm machinery are more stable and normally rise with inflationary pressure; while prices of agricultural products fluctuate widely with changes in production and economic conditions. With less effective means of controlling their production so as to stabilize prices of their products, farmers have tended to buy more machinery during periods of farm prosperity when prices usually are highest.

### DEVELOPMENT OF FARM MACHINERY COOPERATIVES

One of the 14 farmer cooperatives in this study began handling farm machinery as a franchise dealer for a full-line farm equipment manufacturer in 1917--over 50 years ago. The cooperatives have averaged 33 years as full-line franchise dealers, although several started as recently as 20 years ago.

These cooperatives all entered the machinery business under conditions somewhat different than those prevailing today. The most frequent reasons for adding machinery were the desire to expand services, or to meet requests of members for better services, or for savings in purchasing machinery. Today, there is a trend toward consolidation of franchises in larger dealerships.

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<sup>1/</sup> Agricultural Economist, Technical Assistance Program. Frank W. Hussey, Farmer Cooperative Service, conducted some of the field interviews and J. Warren Mather made helpful suggestions for the study.

Boards of directors had a leading role in securing a dealer franchise for cooperatives. In other cases, members requested this service and the board looked upon it as a challenging opportunity to increase volume and provide broader service for members and patrons. The following tabulation indicates which leadership put the cooperatives in the machinery business:

<u>Impetus or leadership</u>	<u>Number of cooperatives</u>
Boards of directors had a leading role in obtaining machinery franchise	4
Cooperative members had a leading role in obtaining machinery franchise	4
Manufacturer approached cooperative about handling machinery franchise	2
Opportunity arose for cooperative to obtain available franchise	2
Cooperative started as a farm machinery and produce marketing operation	1
Machinery dealer changed organization from a stock corporation to a cooperative operation	1

Three of the cooperatives had begun operations with a cooperative-manufactured line of machinery. When the cooperative line was taken over by a major company, two of the three cooperatives continued with the company and the third signed a franchise contract with another company.

Some cooperatives bought out existing dealerships; others geared to take over the franchise when the local dealer retired or went out of business. In two cases, when a franchise of one of the large manufacturers became available and there was lack of private applicants, the manufacturers' representatives approached a cooperative.

One large machinery cooperative had only become a cooperative in 1952 after operating for 25 years as a stock corporation. The franchise dealer who headed the corporation is now the president of the board of directors of the cooperative.

#### MACHINERY LINES HANDLED BY COOPERATIVES

Distributing a main line and two or more short lines of machinery has led to successful dealer operation by the cooperatives in this study.

Ten of the cooperatives franchised one full line of farm machinery. This practice allowed them to supply most of the machinery and equipment needed by farmers in their area and also to stock repair parts for the equipment sold.

The other four cooperatives franchised two full lines of farm machinery. Managers indicated there were more advantages in earlier days of handling two full lines--in that some full-line companies did not manufacture equipment adaptable to all crops and methods of farming, while a smaller company could provide more specialized equipment. In this way, farmers had more choice in selection of equipment to purchase at the cooperative.

The 14 cooperatives handled six major lines of machinery which are described later in the section, Relationship with Manufacturers.

All cooperatives handled at least one major short line of equipment. Ten cooperatives handled two or more major short lines in addition to one full line. Nine companies supplied most of the short-line equipment sold by the 14 cooperatives.

Short-line companies tend to build specialty equipment for a particular purpose. It could be uniharvestors, hay balers, field choppers, or fruit sprayers, for instance. Short-line equipment is in demand by farmers and must be handled by the cooperative if it is to provide for the needs of its members. However, inventory costs soon mount for the cooperative carrying repair parts and providing repair service for several short-line companies.

#### SALES, NET SAVINGS, AND SERVICE RECEIPTS

Most cooperatives kept separate and complete statements on their machinery departments and operations, from which data on gross margins and expenses could be compared.

## Total Farm Machinery Sales and Net Savings

The 14 cooperatives studied had total sales of about \$11 million in farm machinery and equipment in 1970, averaging \$779,000 per cooperative (table 1). Total net savings (margins) amounted to more than \$280,000, and averaged \$20,288, or 2.6 percent of sales. While total sales were down 7.0 percent from \$11.4 million in 1966, net savings were lower by 53 percent. From 1969 to 1970, net savings increased one-third, while total sales increased only 1.0 percent.

Table 1--Average farm machinery sales and net savings of 14 cooperatives, 1966-70

Year	Average sales of farm machinery	Average net savings	Percent net savings were of sales
1970	\$779,068	\$20,288	2.6
1969	781,576	15,062	1.9
1968	774,325	31,631	4.0
1967	786,915	42,845	5.4
1966	819,963	47,201	5.7

From 1966 to 1970, average cooperative machinery sales declined about 5 percent--from about \$820,000 to \$779,000. Even though net savings declined from 1966 to 1969, they turned upward in 1970; average machinery sales remained fairly steady during the period.

Net savings declined from 5.7 percent of sales in 1966 to 4.0 percent in 1968 to 1.9 percent in 1969, but rose to 2.6 percent in 1970.

## New Machinery Sales

For the average cooperative in farm machinery operations, sales of new machinery and other new equipment during 1966-70 accounted for about two-thirds of the total for the farm machinery department (table 2). Used machinery and repair parts accounted for the other one-third of sales.

Table 2--Average sales of new farm machinery and other new light farm equipment by 14 cooperatives, 1966-70

Year	New farm machinery	Percent of total sales	Other equipment	Percent of total sales
1970	\$400,530	52	\$64,578	8
1969	392,477	51	63,070	8
1968	455,830	51	59,465	8
1967	513,978	61	58,082	7
1966	558,384	64	58,332	7

Sales of new machinery amounted to 64 percent of total machinery sales for the average cooperative in 1966 but they declined to 52 percent in 1970 (table 2).

Sales of new machinery declined 28 percent from 1966 to 1970--when they averaged \$400,530 per association. Higher machinery prices and a continued cost-price squeeze were the two main reasons given by cooperative dealers for the decline in new machinery sales from the high level of 1966.

#### Used Machinery Sales

Sales of used farm machinery amounted to more than \$102,000 in 1970 for the average machinery cooperative in the study. Used sales increased from 12.6 percent of total sales in 1966 to 13.3 percent in 1970 (table 3). While some managers feel uncertainty in trading used machinery, this operation makes up only about 13 percent of the total machinery volume; so any errors made in judging the value of used machinery could very well be corrected in the margin realized from the remaining volume.

Table 3--Average sales of used machinery and repair parts by 14 cooperatives, 1966-70

Year	Used machinery	Percent of total sales	Repair parts and service	Percent of total sales
1970	\$101,916	13.3	\$164,221	21.3
1969	110,942	14.5	172,395	22.6
1968	105,047	13.6	162,355	20.9
1967	96,885	12.3	163,375	20.7
1966	103,450	12.6	155,942	19.0

### Repair Parts Sales

Closely alined to the trading-in of used machinery is the sale of repair parts for which the cooperatives gross 28 percent on the average. Sales of parts averaged \$162,355 per cooperative in 1968, and \$164,221 in 1970--about 21 percent of department sales (table 3).

On the average, repair parts sales increased only slightly--about 5 percent--from 1966 to 1970; but this increase occurred while new machinery sales decreased 28 percent and used machinery sales dropped 1.0 percent.

### Other Equipment

Sales of other equipment averaged \$64,578 per cooperative, or 8 percent of total sales in 1970--about the same as in the previous 4 years.

Other equipment usually consisted of equipment found around the farmstead; hay and grain elevators, grain bins, bulk milk tanks, milkers and milk coolers, garden tractors, lawn mowers, water systems, barn cleaners, and bulk feeding systems. In a few cases heavy hardware was included.

### Shop Receipts

Shop receipts for the 14 cooperatives averaged \$48,000 in 1970, or 6.2 percent of sales, compared with \$37,200, or 4.6 percent, in 1966. Total shop receipts increased 28 percent from 1966 to 1970. Less than one-fourth of this amount was received from work done on the cooperatives' own equipment--including setting up and preparing new equipment for delivery.

Average shop receipts in table 4 appear in sharp contrast between the high and low groups of 14 cooperatives when classified on the basis of sales. When measured against average sales, however, percentages were equal for four of the five years, verifying that shop receipts are directly related to sales volume.

Table 4--High, low, and average shop receipts of 14 farm machinery cooperatives, 1966-70

Year	: High 7	: Low 7	: Average
	: receipts	: receipts	: receipts
<u>Average amounts</u>			
1970	\$56,937	\$38,708	\$47,823
1969	50,496	34,889	42,692
1968	51,596	32,293	41,945
1967	49,635	29,992	39,814
1966	46,274	28,135	37,205
<u>Percent of average sales</u>			
1970	6.2	6.2	6.2
1969	5.7	5.3	5.6
1968	5.4	5.4	5.4
1967	5.0	5.0	5.0
1966	4.6	4.6	4.6

The top seven group had average sales of near \$900,000 for the years noted and the low seven group average more than \$600,000 in sales for the same period.

#### FACILITIES, CAPITAL, AND PERSONNEL EMPLOYED

Inadequate facilities for handling farm machinery will not prevent a cooperative from obtaining a farm machinery franchise, nor will the best facilities assure a cooperative a dealer franchise from a leading farm machinery manufacturer. Facilities are only one factor in the manufacturer's total consideration of the ability of the cooperative to successfully handle farm machinery sales and service.

#### Land and Buildings

The 14 cooperatives used 4 to 5 acres of land for farm machinery sales and service. In all cases, this proved adequate for their operations.

Most of the cooperatives have an adequate number of buildings to house the shop and repair service area, repair parts, and warehouse.

FIG. 1—LOCATION OF 14 LARGE FARMER COOPERATIVES  
FRANCHISING FARM MACHINERY—1970



### Shop Equipment and Trucks

The cooperatives employed an average of five mechanics for machinery repair and services--including on-the-farm repair services. Thus, several tractors could be overhauled at one time at all the farm service shops. Some were larger, and one could accommodate as many as 10 mechanics.

All shops were adequately equipped to completely overhaul motors, tractors, and all machinery, including diesel engines. This included equipment necessary to rebuild, test, and tune motors to operate at peak efficiency. Most cooperative shops were well stocked with equipment ranging from hydraulic hoists, jacks, and lifts to the latest in electronic testing and tuning equipment.

Most cooperatives had several flatbed trucks and a trailer and cab to pick up and deliver new and used equipment. All had pickup trucks for delivery and service repair, and nearly all furnished autos to salesmen and management for calling on members and patrons. The 14 cooperatives used 100 trucks for their farm machinery operations. They had an average of four pickups, two flatbeds, and one tractor-trailer.

### Facilities and Operating Capital

The 14 cooperatives had fixed assets (land, buildings, and equipment) for farm machinery operations averaging \$71,000 (depreciated value) at the end of their 1970 business year.

Operating capital used for farm machinery averaged \$619,000 per association. Inventories accounted for \$442,000; accounts and notes receivable \$140,000; and cash for \$37,000.

These associations thus had an average of \$690,000 in fixed and operating capital in machinery operations at the end of their 1970 business year.

### Number of Employees

The 14 cooperatives had an average of 13 employees in the farm machinery department:

1 department head	6 shop mechanics
2 salesmen	2 parts men
1 field serviceman	1 bookkeeper

In 1970, these cooperatives had machinery and parts sales and repair receipts of about \$60,000 per employee.

## OPERATING POLICIES AND PRACTICES

### Purchasing Policies

Under the contractual agreement signed by the cooperative as a franchise dealer with a particular manufacturer, various terms and conditions of business operations are specified. The contract normally can be discontinued by either party on 30 days' notice.

### Line of Machinery and Trade Area Covered in Contract

All the cooperatives carried a full line of equipment suitable to their farming area. Cooperatives located in the wheat area were expected to sell all wheat planting and harvesting equipment and usually all haying equipment--mowers, rakes, balers, wagons, and smaller tractors--as hay and wheat crops are complementary. But they were not expected to sell corn equipment--planters, cultivators, choppers, pickers, or shellers--if corn was not grown extensively in their trade areas.

Trade areas for each cooperative or franchise dealer varied in size, depending upon the type of farming. No one dealer had exclusive right from the manufacturer to sell its equipment in his trade area--other nearby dealers of the same line were free to compete. Trade areas overlapped but usually reciprocity among dealers was amiable and few problems of any consequence arose.

### Terms of Payment for New Machinery

All the cooperatives purchased new machinery from the manufacturer on floor-plan notes, whereby the manufacturer carries the machinery in inventory until it is sold by the cooperative dealer. Invoice payment becomes due within 30 days after sale on the 1st or 15th of the month, whichever date allows the dealer nearer to 30 days for cash payment. Actually, there is little difference under floor-plan financing between purchasing machinery outright or on consignment--there is some of both.

Manufacturers varied in the length of time they will inventory equipment--12, 18, or 24 months. Some will refinance, interest-free, for 6 months; some will carry over into the 2d year heavy equipment only, at no interest; while others refinance the 2d year or after 18 months, at different rates of interest per 6-month period. A few do not carry over or refinance after the initial 12-month period--payment becomes due 1 year after delivery.

### Manufacturer Discounts

As a rule, there is no discount farm machinery and equipment available to the dealer from the manufacturer except on volume. This will range from 1 to 6-½ percent on the dollar volume of equipment sold. The maximum is relatively easy to achieve if total volume exceeds \$100,000 for the year.

At various times during the year, manufacturers will have special advertising and promotional sales of certain types or models of equipment wherein prices are reduced to the dealer and the farmer--both sharing in varied reductions in prices--but not in discounts for cash. Also, preseason sales promotions will vary with different manufacturers so that (1) payment for machinery sold is not due for 6 months, or (2) is interest-free for 1 year, or (3) the list price is reduced--depending upon the sales objectives of the manufacturer.

### Franchise Restrictions

Twelve of the cooperative managers said that they operate under suggestions from the manufacturer--in no way were they considered as restrictions. One mentioned as a restriction a provision that he could not take on another front-line franchise operation. This provision is usually included in the contract between the dealer and the manufacturer.

One other cooperative manager felt that the dollar volume of sales--and purchases--set by the company as a quota was a restriction. Others explained that a figure is reached in consultation with the company blockman and represents a goal to work for.

### Cooperative Restrictions

Similarly, management was asked if they were restricted in any way in the purchase of machinery through lack of capital, credit, volume, or the fact that they were a cooperative. Managers of all the cooperatives visited replied in the negative. Some commented as follows:

"We could always make use of more capital;" "Credit has never been a problem with us;" "Other franchise dealers are more apt to discriminate against cooperatives than are the manufacturers of farm machinery;" and "Sometimes it appears there are too many franchise dealers representing the same manufacturer in the same trade area."

## Purchase of Repair Parts

Manufacturers generally expect cooperative dealers to stock an adequate supply of parts so that machinery breakdowns can be efficiently repaired.

Manufacturers usually give new dealers a list of parts that should be stocked for each piece of farm equipment. The dealer can reject repair parts that he thinks will seldom be needed in his area. He can also order parts in the quantity that he thinks will be needed.

Just as some machinery and equipment can be purchased from manufacturers under provisions of a security agreement for floor-plan and open-account credit, so can some parts be purchased under the agreement. All cooperatives may not be eligible to purchase parts under open-account or floor-plan requirements; new parts can be purchased under other terms.

In case of master or fall stock orders, new machine orders, or new parts orders, the manufacturers announce deferred payments from time to time. The initial stock order for new dealers generally is subject to deferred payment; only the biweekly replenishment stock order requires a cash payment within 30 days.

## Repurchase of Parts by Manufacturers

Once a year the manufacturer will repurchase the stocks of slow-moving, inactive, or surplus parts up to 5 percent of the value of the dealers' net purchases of parts for the year. Most manufacturers had policies along the following lines:

- A. The company offers two categories under which parts will be repurchased:

- Category 1. Parts that appear in the company's published parts price list which is in effect at all times. The repurchase price is the dealer billing price less 50 percent to offset the effects of stock order discounts and costs of handling by the company.

- Category 2. Parts that appear in the special price list published by the company. The repurchase price is the dealer's billing price for such parts less 15 percent.

- B. Parts selected by the dealer may be returned under categories one and two except those with a dealer billing price of less than \$1.

- C. All parts repurchased by the company must be new, unused, and billed by the company as repair parts.
- D. Any parts ordered or shipped in error may be returned in less than 30 days at the company's expense.

### Sales Policies and Practices

The selling of farm machinery is a complex business involving sale and financing of new machinery; trade-in and reconditioning of used machinery; and the sale or financing of used machinery. Sales are also affected by the quality of the service provided.

### Trade Areas

The cooperatives reported that, on the average, 75 percent of their machinery sales were made within 20 miles of their headquarters, and 95 percent were within 30 miles. Only four associations indicated sales at 30 to 40 miles from their facilities.

A trade area with a 20-mile radius has an area of 1,600 square miles, while one with a 30-mile radius covers 3,600 square miles.

### Selling Prices and Markups on New Machinery

Manufacturers suggest the selling price of each kind and size of equipment they send to the dealer. The price, however, will vary among dealers, even on a cash sale without a trade-in, because of freight, assembly, and handling costs.

All cooperative dealers try to set prices for new equipment as close to the suggested list price as possible. They sometimes had to offer lower prices, however, depending on the type and kind of equipment, season of the year, demand generated, and competition at that time. "You strive for a fair markup, take what competition will allow, and make the best deal possible" they invariably reported.

The average retail markup the cooperative dealers attempted to get, and that most manufacturers suggested for new machinery, was 23 percent above the retailer's costs. This was the markup before adding local costs of assembling and handling the equipment and before freight charges unless they were prepaid.

Sufficient markup on new machinery is needed to cover losses or inadequate margins realized in the trading-in, reconditioning, and sales of used machinery. A number of farm machinery department managers

said they were satisfied if they could average 10 percent net on combined sales of new and used machinery.

### Discounts to Farmers

Most cooperatives gave cash discounts of 5 to 10 percent from list prices. They offered no other established discounts to the farmer, but the buyer usually paid less than the list price for the equipment. Higher prices, increased competition, and varying demand for machinery often push dealers to establish a selling price on a sliding scale between their costs on the one hand and the manufacturers' suggested selling price on the other. Taking these factors into consideration, the dealer sets a price on a particular piece of equipment within the guidelines noted. If a deal is made at this price, the buyer receives a discount from the list price automatically--since the price is set below the suggested selling price. If the buyer can bargain for a lower price, in effect he receives a greater discount.

### Sales Contracts with Farmers for New Equipment

The cooperative dealer's use of a purchaser's order form and a delivery receipt or retail installment contract represent tangible evidence of a sales transaction. Both the buyer's and seller's name, address, and date appear on the form and both sign to make it binding. All forms contain a description of the equipment, size, make, model, and serial number. Advance charges, sales tax, and use tax make up the total cash purchase price--less value allowed for the trade-in if the transaction includes a trade.

The cooperative obtains additional information on a retail installment contract if equipment is sold on credit. A deferred payment price is computed by deducting the trade-in or downpayment and by adding premiums for credit, life and disability insurance, filing fees, and finance or credit service charges. The annual payment price is then divided into equal periodic or monthly installments as agreed upon along with specified due dates. About the same information is required; regardless of the agency providing credit.

The retail installment contract usually includes assignment, terms and conditions of sale, delinquency charges, partial refund of finance charge upon prepayment, and a notice to the buyer that all blank spaces should be filled in before a signature is required.

### New Machine Warranty

All new machinery is sold under warranty and agreement, which is in lieu of and excluding all other warranties and conditions expressed or implied. The following warranty is typical of that used by all leading full-line and short-line farm equipment manufacturers:

All new, unused agricultural machines are warranted to be free from defects in material or workmanship which may cause failure under normal usage and service when used for the purpose intended. In the event of failure of a part or parts, and upon inspection the company is satisfied that failure is due to defective material or workmanship within 12 months from the date of delivery to the user, such defective part or parts will be repaired or replaced at dealer price. When requested by the company, part or parts shall be returned for inspection, transportation prepaid, to a place designated by the company.

### Labor Warranty Allowance

If the dealer had to make any repairs on new equipment, manufacturers usually allowed him a labor warranty allowance equivalent to 100 percent of his retail labor rates. This applies to the larger equipment such as tractors, combines, hay balers, and other implements qualifying for the standard warranty and agreement terms.

### Replacement Parts Warranty

Repair and replacement parts supplied by the manufacturer generally are guaranteed for 90 days from the date of replacement, or for the balance of the unexpired warranty period of the basic machinery, whichever period is longer. The exchange of a new part for the defective part generally constitutes compliance with this warranty.

### List Prices and Discounts for Parts

The book or list price suggested by the manufacturer for repair parts includes a markup of 23 to 37 percent over costs; the markup averaged 28 percent for the 14 farm machinery cooperatives studied. For parts sold across the counter, most cooperative dealers charge the full list price. A few charge list plus 10 percent if this is a general practice of other dealers in the area.

About a third of the cooperatives discounts the list price of parts used in custom repair work from 15 to 20 percent. Another third charges full list price against the used machinery, and the other one-third charges repair parts at cost against used machinery and credits the shop for this amount.

### Preseason Sales

All manufacturers sell heavy machinery out of season either at reduced prices or with deferred payment, usually to be made before the busy season. In the preseason or future dating plan, both the farmer and the cooperative benefit financially. Payment for the cooperative may be deferred 6 months or may be extended, interest-free, for another 6 months. The equipment usually will have been moved out of the cooperative's inventory by this time.

Primarily, these sales are held to sell slow-moving equipment--either from the previous season or from carried-over inventory items. The company may want older models moved out to customers before they introduce new models for the coming year. They may want to move some equipment because another company's new models may cause their models to become obsolete and consequently to dip in value.

### Special Promotion Sales

All cooperatives said their manufacturer had held several special promotion sales of some items of equipment in the past year. These sales differed from preseason sales in that they were held during the busy season and were accompanied by a special advertising campaign through newspaper, radio, and TV.

The purpose of the manufacturer may be to move certain equipment while measuring the value of advertising or a special advertising program. Many times, the introduction of new models calls for special promotional activities. On the other hand, overproduction by the manufacturer of certain models may call for a special promotion program to move them.

### Sales Promotion Methods

All cooperatives used newspaper and direct mail advertising. Most used radio and some used television, to a limited extent, for special promotions. Many still depended largely on word-of-mouth advertising from neighbor to neighbor, as most cooperatives spent \$3,000 or less for farm machinery advertising in 1970. Practical farm and field demonstrations of equipment use had a prominent role in reaching machinery buyers. Personal contact, while most desirable, was also the most expensive and was usually left to the salesman.

Selected advertising in the form of direct mailing to users was believed to benefit cooperative dealers at little cost. Manufacturers used this program, at only partial cost to the cooperative dealer, to promote new and special equipment and at times the full line of equipment. The advertising illustrations and copy were prepared by the manufacturer and sent to the dealer for display and as handout information. Other copy was prepared and sent as direct mail from a mailing list or was sent to the cooperative for distribution. While only the manufacturers' equipment was included in this program, the cooperative image was expanded at little effort and cost.

In about one-third of the cooperatives, sales methods of competitors exerted some influence; one-third reported little influence; and the remaining one-third said they had very little influence. One manager indicated that the cooperative was much influenced by the sales method used by competitors, but another stated that the influence amounted to practically nothing. All cooperatives noted that competitors emphasize about the same methods to promote sales as the cooperatives and in about the same manner and degree.

#### Sales Methods Found Most Effective

1. Personal contact either at the cooperative or at the farm was listed as the most effective method of promoting sales. Personal contact was not limited to salesmen only, but included other employees of the cooperative.
2. Neighbor talking to neighbor was listed as the next most effective method of promoting sales. This denoted ability of the cooperatives to service and sell equipment as well or better than other firms--otherwise they could not have relied on their members for neighbor-to-neighbor advertising.
3. Direct mail, farm papers, and service were all listed as effective methods of promoting sales by a number of cooperatives. Direct mail from the manufacturers or the cooperative has a more personal appeal, followed by farm paper advertising.
4. Demonstrations and farm meetings were ranked next. Demonstrations are valuable if equipment performance seems practical to the farmer. Farm meetings, as a personal contact in a group setting brings the product and cooperative close to the customer.
5. Newspaper, radio, and television were thought to be expensive and necessary to arouse interest in machinery, but they contribute less to closing a sale than the other methods listed. Newspaper, radio, and television are used more extensively as advertising media for the total cooperative operation.

## REPAIR AND OTHER SERVICES

All 14 cooperatives make special efforts to provide facilities to repair machinery and equipment sold to members. Managers said that this is one of the main factors affecting the sale of new machinery. Also, they believed it helps obtain new patrons or additional volume for other departments in the cooperative.

While manufacturers do not require specified repair facilities, they do suggest and encourage establishment of dealer facilities and stocking of equipment adequate to meet the demands of farmers.

One of the main tasks of the shop operations is to set up and prepare new machinery for use. Another is to recondition used machinery taken in trade; and the third is to repair and service equipment previously sold. For these operations, the 14 cooperatives employed 88 shop mechanics--an average of 6.3 per cooperative. The number of cooperatives with specified numbers of mechanics were as follows:

<u>Number of mechanics</u>	<u>Number of cooperatives</u>
3	1
4	4
5	1
6	2
7	2
8	2
9	1
13	1

Managers estimated that mechanics' productive time (the time for which a charge was made) averaged about 80 percent. The range among the cooperatives was as follows:

Eleven cooperatives charged full price for labor used in the shop; three cooperatives discounted charges for labor, and one charged a flat rate. Labor charges averaged \$5 per hour, less any discount given. These charges applied to reconditioning, assembly, service, and repair alike.

On-the-farm repair service was provided by all the cooperatives; some provided more extensively than others. Seventeen field service men--an average of 1.2 per cooperative--were employed to repair and service machinery on the farm. Ten of the cooperatives had such field service men; five had one man; four, two men; and one, four men. All sold tractors, implements, and tires, and most operated farm service trucks equipped to change tires, do light welding, and make minor equipment repairs on the farm. All cooperatives charged the full cost of machinery repair on the farm plus travel and mileage.

The cooperatives as a group had \$4,766 of repair receipts per mechanic in 1970.

The cooperatives employed 34 parts men--an average of 2.4 per cooperative. The range in the number per cooperative was as follows:

<u>Number of parts men</u>	<u>Number of cooperatives</u>
1	3
2	6
3	4
7	1

The cooperatives as a group had parts sales averaging \$47,750 per parts man in 1970.

### Handling Used Machinery

Most sales of new machinery involve trade-ins. The ability of management to handle this phase of business greatly determines the success of the enterprise. Often, trade-in allowance became a keen competitive factor--especially if dealers found themselves long on inventory of new equipment.

The method of accounting varied among the cooperatives. Some dealers valued the trade-in at its fair market value at the time of the transaction. Others overvalued it on the books and sold it at market value after it was reconditioned for sale.

While all cooperatives had gross losses on used equipment, they tried to keep these low enough to gross 10 percent on combined new and used equipment sales.

### Financing Machinery Sales

Credit or financing is important in the farm machinery business because few sales are made for cash.

### Sources of Credit

Local banks were the main source of credit when a farmer purchased new farm machinery from cooperative dealers. Local banks, too, were the only source of credit used by all 14 cooperatives in 1966-68 (table 5). They directly supplied 43 percent of the total capital borrowed by farmers to purchase new farm machinery, and by supporting other notes from various sources accounted for more than one-half of cooperative farm machinery financed.

Table 5--Source of financing of new machinery sales by cooperative dealers, 1966-68

Source of credit	: Number of cooperatives using credit source	: Percent of total financing
Local banks	14	43
Manufacturer finance plan	10	10
Production credit assn.	11	13
Farmers Home Admin.	5	4
Cooperatives	4	12
Local credit union	1	4
Other	7	<u>14</u>
Total		100

Only four of the cooperatives provided and carried the necessary capital for extended credit. They provided 12 percent of the total credit reported by the 14 cooperatives and 63 percent of the amounts these four reported. Cooperatives will quite often finance sale of used equipment in this manner. In total sales of farm machinery, cooperatives carried nearer to 20 percent of credit used than the 12 percent indicated for new machinery.

Direct financing often occurs where a cooperative markets products for farmers and can deduct machinery payments from the sale.

Some cooperatives acted as financing agents, accepting the farmers' note which was then sold to the local bank. The cooperative collected payments on the note and reviewed the note on occasion, while balancing their account with the bank. Some cooperatives worked closely with the bank; bank notes were signed by the farmer and term payments were made directly to the bank. As collateral, the cooperative guaranteed payment of the note to the bank in case of default by the maker. Managers believed that going further than this in credit arrangements will create more problems for the cooperative than it will solve.

Production credit associations supplied an estimated 13 percent of total credit and manufacturers handled 10 percent of the total.

#### Terms for Financing New Machinery

Most financial arrangements require a one-third downpayment when borrowing capital for the purchase of new machinery. The value of the farmers' trade-in may be credited as part or all of the downpayment. The balance can usually be paid in monthly installments, or over a period of 3 crop years, at the going rate of interest and carrying charge.

Minimum downpayments and methods of financing farm machinery sales is of little concern to the manufacturer unless their retail financing plan is used by the farmers. Several options accrue to the buyer if this plan is used: (1) Generally one-third of the purchase price is required as a downpayment; (2) machinery can be purchased for 10 percent down, if up to one-third is paid before the equipment is used in the field; and (3) heavy equipment, at times, is sold for 20 percent down, depending upon company policy, cooperative ability, and buyer reliability.

### Financing Sales of Used Machinery

The cooperatives directly financed more lower-priced used machinery than new machinery for members. Accepting and carrying small notes provides a convenient service for patrons. The more expensive used equipment may be financed through the cooperative on notes which are then sold to the local bank. Local FHA and production credit associations also financed used machinery for cooperative members. Local banks and farm credit agencies financed most used machinery sales.

### Refinancing Farm Equipment

One cooperative refinanced about \$50,000 worth of member accounts in 1970. This total included home appliance and radio and television sales. About 10 percent of refinancing related directly to farm machinery. Nine cooperatives did little or no refinancing, and four refinanced some \$500 to \$1,500 of member accounts in farm machinery.

### Repossessing Farm Equipment

Little farm equipment has been repossessed by the cooperative dealers. One repossessed \$10,000 worth of farm equipment, which was less than 1 percent of total sales. Little or no equipment was repossessed by eight cooperatives, and six repossessed equipment valued at \$2,000.

Few repossessions involved direct cooperative financing; most were cases where the local bank or credit union had extended credit to the purchasers. Cooperative dealers took possession of the equipment when fulfilling credit obligations at the local bank or credit union. Cooperatives were most likely to extend credit or refinance cooperative loans, rather than repossess equipment.

## Managing Inventories

In 1970, the cooperatives had, on the average, more than \$450,000 invested in inventories of new and used machinery, repair parts, and other farm equipment (table 6). If considerable new machinery had not been floor-planned by the manufacturer, capital requirements would have been substantially larger.

Table 6--Average yearend inventory reported by 14 cooperatives, 1966-70

Year	<u>Farm machinery</u>		Repair	Other	Total
:	New	Used	parts	equipment	:
-----Dollars-----					
1970	226,295	72,414	126,725	36,207	1/461,641
1969	206,921	66,039	132,078	35,221	1/440,259
1968	218,290	70,738	117,050	36,315	442,393
1967	233,045	55,589	137,407	28,000	454,041
1966	174,187	50,144	109,484	27,342	361,157
-----Percent of total inventory-----					
1970	49	16	27	8	100
1969	47	15	30	8	100
1968	49	16	27	8	100
1967	51	12	30	7	100
1966	48	14	30	8	100
-----Average inventory turnover <sup>2/</sup> -----					
1970	1.77	1.41	1.29	1.78	1.72
1969	1.90	1.68	1.30	1.79	1.77
1968	2.09	1.49	1.39	1.64	1.75
1967	2.21	1.74	1.19	2.07	1.73
1966	3.20	2.06	1.42	2.13	2.18

1/ 1969 and 1970 inventory estimated from sales and inventory for 1966 to 1968.

2/ Based on yearend inventory and sales.

Based on yearend inventory and sales, total inventories turned only 1.72 times in 1970, compared with 2.2 times in 1966. This rate for total inventory and for new machinery inventory was in line with industry averages for the cooperatives' volume of operation, but the cooperatives' turnover of used machinery and parts was below industry rates.

## Machinery and Other Equipment Inventory

During 1966-70, the inventory of new machinery accounted for 50 percent of the total machinery and parts inventory. Repair parts made up about 29 percent; used machinery, 13 percent; and light farm equipment, 8 percent.

New machinery inventory had a turnover of 1.8 times in 1970, compared with 3.2 times in 1966. Used machinery and light equipment turnover showed a gradual decrease in rate from 2.1 to 1.4 times during the period, while repair parts inventory turned 1.3 times in the period.

## Custom Machinery Service

Only one of the 14 cooperatives reported doing any custom work with its own machinery for members in 1970. This cooperative gradually worked to improve this program. It began in the fertilizer department to increase the use and sale of fertilizer. Using a converted grain drill, the cooperative planted seed for a crop and banded liquid fertilizer beneath the surface in one operation. It also will custom-plow and prepare the soil for planting and will harvest almost any crop for both members and nonmembers, including corporations and processing companies.

The possibilities of the other 13 cooperatives providing custom services are not imminent. They believed several management and operational problems would lead to excessive costs. For instance, they mentioned the short planting and harvesting season, getting and keeping trained personnel fully employed, and satisfying every member who wants his crop either planted or harvested when the weather is right.

The cooperatives report, however, that farm equipment manufacturers are encouraging all dealers to step-up custom services and some dealers not in the study have increased custom services. So some cooperative managers are considering inaugurating such services because demand for them may increase.

Most cooperative managers did not think it advisable to sponsor a machinery subsidiary to provide a variety of custom services. They thought the problems of personnel and capital would preclude success of such a venture.

Inquiries were made about the cooperative scheduling custom work for individual operators who agree to give first attention to its members. Serving as a coordinator for small or part-time custom machinery operators is not looked upon favorably by managers of cooperatives, as is the practice now with some persons who bulk-spread lime and fertilizer. Four hesitatingly said yes to the role of coordinator,

two thought it was a possibility, and the rest said no. The last-named group thought that this could be better handled by the county Agricultural Extension Service or one of the farm organizations. Unless things change drastically on the farm and in rural areas, most managers believe that the individual custom operator will continue to do most of the custom work without a tie-in with cooperatives.

### Leasing or Renting Farm Equipment

Half the cooperatives rented farm equipment to farmers in 1970. The going community rate was charged on a per acre, per unit, or per hour basis. Some cooperatives will rent both new and used tractors. Some will lease only used combines, thus implying that it isn't feasible to lease new combines. Six cooperatives did not lease or rent any farm machinery during 1969 and one would lease or rent only if requested.

Other farm machinery dealers in the trading areas of nine of the 14 cooperatives leased equipment to farmers. In four cooperative areas, other dealers did not lease equipment, and one cooperative reported not knowing whether other dealers were leasing equipment in the area.

All cooperative dealers lend equipment at no charge to farmers in an emergency. An emergency could be a breakdown of the equipment in the field, new equipment not delivered on time for planting or harvesting, or repair parts delayed at the factory or in shipment.

### RELATIONSHIPS WITH MANUFACTURERS

The 14 cooperatives had franchises with six major manufacturers. Ten handled the full line of one manufacturer. The other four each had franchises with two manufacturers. The number affiliated with various companies (listed under code here) follows:

<u>Manufacturer</u>	<u>No. of co-ops handling</u>	<u>Manufacturer</u>	<u>No. of co-ops handling</u>
A only	4	C and E	1
A and E	1	D only	1
B only	2	D and F	1
C only	1	E only	<u>2</u>
C and D	1	Total	<u>14</u>

The total number of cooperatives handling each manufacturer's lines therefore was:

A -- 5	D -- 3
B -- 2	E -- 4
C -- 3	F -- 1

The relationships between the cooperatives and manufacturers have been generally good. The cooperatives have had franchises with these companies from 23 to 56 years.

#### Changes Made in Franchises

Managers of cooperatives reported that different manufacturers have made various improvements in dealer franchise operations over the past several years to make franchises more attractive. The principal ones were as follows, where the manufacturer--

- Initiated and extended floor-plan notes, whereby most of the equipment is inventoried by the manufacturer until it is sold by the cooperative.
- Extended carryover time on floor-plan notes on heavy machinery (tractors and combines) up to 2 years or more until sold.
- Allowed, on some special sales, the cooperative 6 months' interest-free credit.
- Delayed interest or extended payments on special orders for a specified period.
- Increased volume discounts in proportion to total sales for the year to a limited maximum.
- Allowed dealers wider latitude in discounting from manufacturer's suggested list price to make a deal.
- Began paying full warranty, parts, and labor for defective machinery and equipment.
- Started wholesale rate financing of new equipment in dealer inventory; floor-planning of used machinery and equipment was undertaken by other manufacturers.

## Changes in Franchises Desired by Dealers

While cooperative franchise dealers are basically well satisfied and agree that they have a realistic arrangement with the manufacturer, they indicate certain changes would be helpful. Influencing their thinking, they say, is the overriding aversion to increasing prices of equipment and repairs when farm prices are stable or declining. They suggest also that manufacturers move to alleviate the mounting pressures on inventory capital and operating costs before dealers are forced into ruinous price cutting to make a deal. As cooperatives see it, manufacturers should make the following changes:

<u>Suggestion</u>	<u>No. of cooperatives</u>
· Set up permanent floor-plan financing--with time limit extended as needed.	3
· Floor-plan used equipment as well as new equipment.	3
· Ship equipment nearer to time of need.	2
· Store and stock new equipment.	2
· Increase the discount to help build sales volume.	2
· Pay full rates for labor and parts under warranty.	2
· Change design of new equipment less frequently.	1
· Manufacture fewer models of new tractors and equipment.	1

Most of the dealer suggestions for improving franchise agreements with the manufacturer involve economic aspects of the farm machinery operation. While some dealer cooperatives are concerned with the capital need for inventory and with other operating costs, about half the cooperatives see little reason to change the agreement. The more efficient operators appear satisfied with the conditions of the dealer agreement, while the less efficient operators want the manufacturer to carry a greater share of the financial burden.

## BENEFITS FROM HANDLING FARM MACHINERY

The managers interviewed noted a number of benefits from handling farm machinery when it is handled on a sound basis. These were grouped into benefits to the cooperative organization; to farmer-members; and to the community. The fact that their selection was based on the experience of larger, more successful cooperatives should be kept in mind. These benefits are listed in the order of the frequency they were mentioned.

### Benefits to the Cooperatives

- (1) Farm machinery service brings in new members and increased volume.
- (2) Cooperatives' strength and influence on competition increases with this service to farmers.
- (3) Increased net margins result from farm machinery sales and from spreading of general overhead over more products or departments.
- (4) Farm machinery salesmen in their contacts sell the cooperative, thus adding to goodwill as well as volume.
- (5) Cooperatives become larger, multiproduct, and better service businesses.
- (6) Farm machinery creates more floor traffic, which leads to purchase of other products.
- (7) More of the bigger, better farmers are attracted to the cooperative. Some would not come to the cooperative if it were not for its machinery services.
- (8) Machinery can offer an opportunity for cooperative expansion and growth--especially after the cooperative becomes well established and soundly operated.

### Benefits to Farmers

Indirectly farmer-members benefit when the cooperative benefits; but farmers also benefit directly when the cooperative acts as a farm machinery franchise dealer. Cooperative managers suggested these benefits emphasized by the order listed:

- (1) Farmers are assured that prices are always in line.
- (2) Farmers are assured of a full supply of repair parts.

- (3) Farmers are assured of quality service.
- (4) Farmers receive service at cost.
- (5) Farmers can purchase other supplies in one stop.
- (6) Farmers receive a patronage refund on their purchases.
- (7) Farmers know that competitors are kept in line.
- (8) Farmers' needs are filled in the local community rather than at a more distant one.
- (9) Farmers can exchange farm products for machinery.
- (10) Farmers own the cooperative--they can change it if it does not meet their needs.

#### Benefits to the Community

- (1) Business is kept in the community by a locally owned organization.
- (2) Additional jobs and payroll are made available.
- (3) Additional funds are spent for utilities, insurance, equipment, and taxes.
- (4) As more farmers shop in the community, business expands attracting new services and new people to work and live in the community.

#### GUIDELINES FOR SUCCESSFUL OPERATION

Suggestions from the managers and directors of the large machinery cooperatives interviewed, and those included in FCS Information 86, are offered for the consideration of other cooperatives now handling machinery and for those contemplating handling machinery as franchise dealers. The principal suggestions follow.

#### Obtain Management with "Special Interest" and "Know-How"

Handling farm machinery is more difficult than handling most other supplies and equipment in farmer cooperatives. Either the general manager or the department manager needs to have a special interest and know-how in machinery. And the board must realize this in employing competent managers and in setting their rate of pay.

Management must be capable of selling new and used machinery, trading-in machinery, servicing machinery, controlling credit and inventories, pricing equipment on a sound basis, and managing relatively large amounts of capital. In a cooperative, management must be able to deal with members and nonmembers--with large, medium, and small farmers--in a fair and equitable manner.

#### Employ Experienced, Competent Personnel and Provide Training Opportunities

Representatives of cooperatives suggested six employees for beginning farm machinery services: A department manager, a salesman, two mechanics, a parts man, and a bookkeeper. They suggested that cooperatives should strive for a second salesman as soon as volume prospects warrant. Larger machinery cooperatives averaged 12 employees, and sales averaged about \$60,000 per employee.

New employees need training to orient them to objectives and methods of the cooperative; they must learn to treat farmers as owners as well as patrons of the business. Service employees, especially those in repair work, need continuous training to turn out quality work and maintain efficient work habits. These employees must be paid at a level sufficient to retain their services.

#### Obtain Adequate Capital

Relatively large amounts of capital are required for facilities, inventories, and receivables, even though much of the new machinery can be floor-plan-financed by manufacturers.

Ability to obtain maximum volume and cash discounts from manufacturers depends heavily on adequate finances. Turnover of capital in relation to sales and return on invested capital is lower than in many other businesses, so dependable service at reasonable cost is a major consideration in raising adequate member capital.

The large cooperatives believed that the minimum capital needed was \$275,000 for handling an annual sales volume of \$500,000. Later interviews, however, with successful smaller cooperatives indicated minimal capital requirements of about \$100,000 for minimum sales of \$250,000 a year.

#### Develop an Adequate Volume Through Aggressive Sales Methods

Managers of the large cooperatives indicated a trade area extending about 25 miles in each direction from headquarters would be adequate to obtain a minimum volume approaching \$500,000 for successful operation.

In later interviews with managers of 10 smaller cooperatives, however, they believed only \$250,000 would be needed as a minimum to break even, and that this could be obtained within a radius of 18 miles from headquarters. For successful operations, they thought an annual volume of \$300,000 was sufficient.

Cooperatives surveyed by mail averaged \$355,000 in sales volume. They indicated a minimum volume of \$325,000 was needed for successful operations and this could be realized in a sales area extending 20 miles from the cooperative.

### Carry a Full Line of Farm Machinery

The cooperatives believe that a new cooperative dealer should handle at least one full line of farm equipment. This would mean a franchise operation for one of the major or front-line manufacturers of farm machinery. Cooperative officials also suggest handling several major short lines of equipment to complement the major line. They say: "Stay with a full line, several short lines, and some light equipment and supplies needed by farmers in the area." These cooperative officials also advised: "Do not accept the first available franchise unless that make of farm machinery is in popular demand in your area."

### Provide Reliable Service

Service the farm machinery you sell. If your facilities are located and constructed to allow efficient service and your employees give prompt, dependable service you will succeed. This advice was based on many years of experience by the cooperatives in the study. This means, for example, repairing only parts that need repairing and satisfying the farmer so that he does not have to return for further repair work. The farmer member expects reliable work at a fair price in reasonable time for his continued patronage. The successful machinery cooperatives have tried to meet these farmer requirements.

Reliable service sells new and used equipment--all managers agree. But no matter how good the salesman, if the service department cannot repair the equipment when it is needed and it does not operate properly when it leaves the shop, future sales will be affected.

### Properly Evaluate Used Machinery Trade-ins

Most salesmen can make a deal. Satisfactorily completing the deal from the sales standpoint is only the beginning of a sometimes complicated operation. The selling phase of the deal carries the least risk. The greatest risk comes after the farmers' trade-in becomes the cooperative's property and the chances of loss accumulate until it is sold.

Proper evaluation of all steps in the reconditioning process becomes crucial to success. Cooperative dealers say that if you are to control probable losses in the reconditioning process, an economic value must be established for every step of reconditioning machinery until its final sale. These values must be accounted for and charged against some facet of the operation. Costs of repair parts, labor, overhaul, painting, storage, and idle capital are expenditures. Prospective losses can be turned into gains if management makes the right decisions at each step of the operation.

#### Set Up a Machinery Department with Separate Budget

Set up a separate machinery department and prepare separate operating statements on the business. These should be in a form that will provide a record of: (a) Sales, cost of sales, and gross margins on new machinery, used machinery parts, and other equipment; (b) receipts for service labor and other income; (c) direct expenses and indirect expenses of the department; and general administrative and overhead expenses of the cooperative allocated to the machinery department; and (d) net margins for the department.

Such information will enable management and directors to compare operations with the previous month or quarter, with the same period a year ago, and with annual summaries of "cost of doing" business issued by a leading farm equipment magazine.

Budgeting the machinery operation will provide complete knowledge of the operation for cooperative management. This will help show machinery salesmen as well as department managers the financial implications to the department and the cooperative when making deals. It will help cooperative management be aware of how well the machinery department is meeting projected goals and whether the department is operating within the proposed guidelines.

Business methods should be followed in pricing, markup, and making deals. Personal friendship on a business or social level should not interfere with the economics of business practices.

#### Determine Equipment and Service Needs of Farmers

Develop information on the potential farm machinery market in your trade area and trends in type of machinery farmers are buying. Determine the needs and desires of farmers with large, medium and small operations, and with different farming enterprises. Such information will help management and directors determine which short lines to handle and whether handling more than one full line might be advisable.

Other information to be obtained includes farmers' needs and potential use of custom machinery services and leasing or rental services.

A survey of farmers' needs, preferences, and desires also will provide helpful information on their opinions of the present service and operations of the cooperative.

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The long successful record of the organizations in this study demonstrates that cooperatives can handle farm machinery. Sales and net margins may fluctuate with changing crop and economic conditions, but officials believed that farm machinery distribution can be a beneficial service to farmers. As cooperatives continue to become larger due to growth and merger, they should have the management and resources to handle machinery successfully.

Farm machinery and related costs account for a third of farmers' expenditures. Farmers are interested in keeping costs to a minimum and in having dependable repair services--especially during periods of inflation and short supplies of farm labor. In addition, sound machinery operations can be beneficial to the cooperative enterprise by bringing in additional volume and goodwill. It can contribute to the cooperative's image of fully serving the needs of modern commercial farmers in the community.



**FARMER COOPERATIVE SERVICE**  
**U.S. DEPARTMENT OF AGRICULTURE**

Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues *News for Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.