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Farm Management Team Q & A's

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(B) Author's Note: These fact sheets are a result of questions posed to me and answered in a national publication over the years.

Replace Older Machinery or Not?

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Our family always gets into an argument when it comes to deciding when to replace older tractors and machinery—antiques excepted. Today's sticker prices are hard to swallow even with touted money-saving technologies. Do you have any quick-and easy guidelines for making replacement decisions? How do you weigh ownership cost against using a custom operator?

Sticker prices are high and I don't see them going anyplace but higher as energy prices edge upwards. It's tough to justify that new tractor, especially when there is such a difference in price between new and used. Even a 1,000 hours makes a big difference in price. Like a car, that 2 year old model with a few hours/miles on it may take tens of thousands off the original price and makes it a whole lot easier to financially handle. I have not purchased a new vehicle in more than 20 years after finally realizing that the depreciation during those first few years is far costlier than what I'm willing to pay. So what if there's a few scratches, a dent here and there, and some faded paint. As long as it's sound, with a great clean engine, hydraulics, transmission, and the other necessities; the scratches, dents, faded paint is just fluff.

To make replacement decisions, I usually take a look at a partial budget first and if it's a big purchase I then look at a comprehensive budget (or one that takes into consideration the impact the purchase has on the entire farm operation). When using a partial budget: put the added returns plus the reduced expenses with the new equipment on the left side of a sheet. Then write the reduced returns plus the added costs on the right hand side of a sheet. If the added returns plus the reduced expenses are more than the reduced returns plus the added costs then the purchase makes financial sense. For instance: lets say we want to replace that old discbine with a new discbine. The added returns will include such items as higher feed values (because I may be able to get it cut earlier), and perhaps some rental income. The reduced costs are the reduced labor bills, reduced repairs, maybe reduced fuel costs, and other items. Reduced returns might include no interest from that C. D. The added costs include the principal and interest payments, the insurance, and other items.

If the costs, and any reduced returns outweigh the benefits and reduced costs of the new machine then the recommendation is to look for another way to do the project. Putting a value on comfort level is tough but... when the negatives add up to more than \$10,000 or \$20,000 then maybe its time to buy used.

I do recommend weighing in when to trade or when to custom hire. If you only intend to use the machine for a few weeks a year then why buy? It's better to keep the money for something with a better return, especially when the D.I.R.T.I. 5 alone exceed the cost of custom hiring the project. The classic case is the purchase of a 6 row corn planter. Using that for only 3—4 days/year just doesn't make sense. An example: Planting 160 acres with a \$16,000 machine is \$10/acre in interest cost let alone depreciation, repairs, insurance and operating cost. I would try to partner with others to buy one or rent from the neighbor. Even if you have to plant early or late daily it's worth the financial pain. On the other hand, don't sacrifice high quality feed by being on the tail end of the custom haylage cycle. Haylage cut June 15—20 is very costly compared to May 25th cut haylage. Put a value on that and see what it will take to get the custom operator to the farm early.

Toggleing up is great for some, if you know what you're doing. But there comes a time to let "old reliable" go and buy another one. Generally, the recommendation is to put machinery on a time table to replace and project out 5 or more years on a replacement schedule...(easy to say but a lot tougher to do).