



Steel to construct application and other ag equipment is in tight demand and has drastically increased in cost.

# SHARP RISE IN PRICES DOESN'T CHANGE SHARP-PENCIL MENTALITY

■ By Dee Weeda

For ag retailers, the bottom line is: The bottom line needs to be in the black.

Rising costs are everywhere and for everyone—manufacturers to retailers. From a steel market that has increased 100 percent in the past year, to tires, fertilizer, transportation, labor, fuel, equipment and support equipment, rising costs are impacting the entire ag production chain from top to bottom.

However, that doesn't necessarily mean ag retail organizations are making huge changes in the way they do business.

"The cost of doing business is no more important today than it has been—input costs are a supply and demand issue," says Jim Pfeifer, retail division manager with United Suppliers in Eldora, Iowa. "We still have to make the business profitable. Yes, things are changing, but that just means we have to do a better job of the things we're already doing."

As managers at United Suppliers' 40 retail locations make their decisions on purchases ranging from sprayers and dry applicators to trucks, cars and new buildings, they are dealing with rising costs with the same "sharp pencil" mentality they've relied upon in the past.

"It means we may need to get by another year with our current equipment, or as we've done in the past, we may take this opportunity to trade in two or three machines and replace them with one," said Pfeifer. "We may need to 'right size.' Everyone wants the biggest and the best, but maybe for an individual location the biggest is not the most effective or most efficient. Maybe we need to step down and go to one size smaller unit that best fits the needs."

Arnie Sinclair, national accounts manager for AGCO's application equipment division sits across the table from retailers in the market for equipment, and he's seeing the same thing—a search for ways to become more efficient.

"Overall, it appears the needs of our retail customers have



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not changed, and they're not cutting back, but they are doing a better job of planning and looking at ways to be more efficient," Sinclair said. "With increased crop prices, there are additional opportunities for revenue such as variable rate application or fungicide application. Smart operators are investing in new units that enable them to offer these services, and they are investing in machines with technology that improves their application efficiency."

### INVESTING IN TECHNOLOGY

At United Suppliers, Pfeifer guides equipment replacement decisions based on the revenue what the machine will generate per acre compared to its cost of operation. Will the machine allow coverage of more acres, or can it justify an increased application rate? The company is investing in technology on new application equipment purchases as a way to increase efficiency and per acre revenue, even though the cost of the machine increases.

"As the cost of application equipment increases, there is no reason to cut back on technology. In fact, the need for technology is probably greater today than ever because it makes us more efficient," Pfeifer explains. "Auto steering, GPS, automatic nozzle shut offs and parallel swathing combine to help us reduce overlaps, put product where it belongs and get over more acres per day, more accurately than we ever have before."

For cooperative CHS, the fact that costs are going up is not changing the company's business model or its purchasing plan. CHS relies on careful planning and budgeting, then working that plan.

"We have built the infrastructure, and we have to support it," said Larry Schermerhorn, vice president of farm supply at CHS. "In our world, we do a business plan each year, taking into consideration our equipment needs for the coming year and three years out. As long as a piece of equipment has been budgeted for, we're going to move forward with the purchase."

CHS works to maintain the quality and reliability of its fleet by replacing equipment on a continual basis rather than all at once.

In addition, the company's equipment purchase decision goes beyond the bottom line cost of the machine. Schermerhorn looks at the total value proposition, the combination of machine and service beyond the sale.

"We must have a reliable machine and the service to keep it running, so that we have revenue coming in and happy customers," the 30-year industry veteran related. He believes it is critical to work with equipment dealers who understand the value of providing service even on Sunday at 10 a.m. if that's what's needed to keep machines running during the critical application season.

Having machines on site before the application season

begins also is a factor in more and more retailers' decision timing. Sinclair is seeing customers place new equipment orders earlier than in the past.

"Overall demand for equipment is up around the world, which means engine and transmission manufacturers and steel providers as a whole are running behind in meeting their delivery needs. Everyone is ramping up, but it takes time to get there. Customers are planning ahead, ordering earlier because they know it will take a bit longer to get the machines from manufacturers," he explained.

Global demand for steel and equipment is increasing and with it go prices, according to John Navarra, North American purchasing manager for AGCO in Duluth, Ga.

"We are seeing a considerable increase in demand on the sales side, definitely more than we anticipated 12 to 18 months ago," Navarra said. "Globally, demand for steel is in tight demand, there are fewer steel companies and the weak dollar and increased shipping costs are coming together to create a very challenging situation."

### SEARCH FOR EFFICIENCY STARTS EARLY

It's not only ag retailers who are looking for efficiency as the costs of steel, rubber, fuel, transportation, labor and other components increase. Equipment manufacturers also are on the hunt for improvements in efficiency.

"We've instituted a suggested savings program working with our suppliers on the technical aspects of parts for our equipment," Navarra explained. "By examining the technical aspects of parts—how they are made and what they are made of—we work with our suppliers to identify innovations to improve performance, quality and reliability rather than just negotiating for lower prices and squeezing their margins. Inevitably, their success benefits us."

Navarra is responsible for purchasing power train, metal and steel products that go into AGCO products built at the company's Jackson, Minn., and Hesston and Beloit, Kan., manufacturing facilities.

In this role, he's seen an incredibly steep price increase that fortunately began to level off in July. While he won't hazard a guess as to where steel prices will go in late 2008 and 2009, the company doesn't anticipate sustained growth in steel prices beyond where we are right now.

"The reality is, the market has risen 100 percent since November 2007. Though we pay less than the market due to negotiated contracts, it is still a challenge to supply the increase in demand and protect ourselves and ultimately provide a higher quality, better performing product for our customers," he concludes. **AG**

*Editor's Note: Dee Weeda, a writer with Broadhead + Co., wrote this article at the request of AgProfessional with editorial approval of content and sources.*



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