

Evaluating Windrower Options With the Machinery Risk Calculator

How Much Risk is Right for You and Your Operation?

Jim and Sally Butler are getting ready for their third year in business producing alfalfa hay. The couple has been using custom operators to mow or windrow their hay, and have been informed that custom prices will be going up due to high fuel and other costs. They had been paying \$10/acre, and now windrowing will cost \$19/acre. The Butlers are considering other options in the form of owning or leasing their own machine . . .

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The Butlers are considering other options in the form of owning or leasing their own machine. After doing some investigating, they have found a like model used windrower available for \$75,000. The equipment company is offering the option to own it outright (20 year term, 0% interest) or lease it at \$2,000 per year.

The Butlers are struggling to make an informed decision on the best option for windrowing their hay based on the basic information in Table 1. Simply looking at the initial purchase price in the form of a cash buy or lease payment does not give an accurate picture of what they should expect the machine to cost to operate, or the ability to compare it with having a custom operator.

Machinery and equipment is often one of the largest expenses for farms or ranch operations, especially for new operators. It is important to make an investment in the current state of these expenses and not just a best guess of what they could be. Based on accurate data, the Butlers need to develop an accurate estimate of their estimated cost per acre to compare with the custom hire option and evaluate for the interest risk and operability present in their estimates.

| Machinery | Purchase Price | Lease Price | Rate |
|-----------|----------------|-------------|-----------|
| Windrower | \$75,000 | \$2,000 | \$19/acre |

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