

# Used is as good as new. Or is it?

Answering six questions can help you solve the dilemma of whether to buy new or used equipment

By Jason Karszes

**When you look at the bottom line**, whether to buy used or new is dictated by two factors:

- The costs associated with a piece of equipment over its useful life.

- A piece of equipment's contribution to your business' ability to generate goods and services profitably. (See Fight new paint disease with careful analysis, page 19, for information on how to calculate costs.)

Before buying new or used equipment, you must first decide if investing in it will improve farm profitability.

Your analysis of new vs. used hinges on three cost areas impacted by equipment: timeliness of operations, repair costs and salvage value. Answering the following six questions can help you arrive at estimates of these three cost areas and a satisfactory answer to question seven.

### 1. For what job will the equipment be used?

Decide how critical the job is to your dairy's profitability and how often it's performed. If used equipment might be slower, less efficient, break down more frequently or otherwise not do its job as well as new equipment, then your decision becomes clearer.

Let's say you use a skidsteer five hours a day during feeding, and there's no backup equipment. Then a breakdown delays feeding and that impacts milk production. So a new skidsteer might be the best bet.

On the other hand, you probably can get by with a used tractor if it does little else than pull a brush mower. If the tractor breaks down and the mower isn't used that day, that doesn't hurt business income.

### 2. What used equipment is available?

Before buying used equipment you need to answer:

- Does it fit with your intended use?

- What is its quality?

- Do you know the previous owner (s), uses and maintenance?

- Is the machine so old you'll have trouble finding repair parts? And someone to repair it?

If the equipment has been "ridden hard and put away wet," as old-timers said about horses, it might not be a good bet at any price.

### 3. What is the cost of new equipment?

Also find out what features on the new equipment may benefit your business or add cost to the equipment with no real economic benefit. The closer new and used machines are in cost, the cleaner, better and newer the used machine will be, hopefully, and the easier it is to think about buying new.

### 4. What is my dairy's financial situation?

Consider other things you need to do or buy to make your dairy operate efficiently before investing.

If the opportunity cost associated with using capital to buy something new is so high, you may be better off buying used, even if repairs and downtime decrease earnings more than a new piece of equipment will.

### 5. How well do I manage machinery?

What is your dairy's machinery track record? Does equipment last a long time? Do you have the facilities, skills and time to repair equipment so it's ready when you need it? If so, then your dairy can probably make used equipment work.

### 6. What will the machine be worth when I'm done with it?

It's critical to know a machine's salvage value, or the value of the machine at the end of its useful life. The type of machine purchased, its maintenance, hours of use and cost of new equipment impact salvage value.

Salvage value is critical to determining the economic, or actual, depreciation that's part of a machine's annual economic costs. Find out what depreciation will be taken on both a new and a used piece of equipment. A new piece of equipment will generally have more depreciation than a used piece but depending upon the salvage value, the difference may not be that great.

### 7. Should I buy new or used?

It depends. Since it's difficult to estimate future repair costs and the impact of downtime on costs and output, you must look at your track record on equipment. By doing that and answering the six questions, you can better decide whether to buy new or used. ■



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## FYI

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