

Joe Nichols (right) doesn't consider himself a savvy shopper. He just watches the margins. "It's not what I pay or get in trade [on machinery and trucks] that matters, it's the difference between the two and whether that makes economic sense."



Bottom Line Buying

A focus on profit drives purchasing strategy

PHOTO BY THE AUTHOR

Joe Nichols paces around his gleaming new granary with an uncharacteristic restlessness. Completion of what looks like a giant erector set is behind schedule; three new combines that should be harvesting wheat sit idle. Every minute of delay is a cost and that is a word Nichols tries never to utter on his Seven Springs Farms.

"We don't ask how much something costs, we focus on how much profit every input, every machine, every acre can make," says Nichols, who farms with his wife, KaDonna, and brother, Todd, near Wallonia, Ky. That often means spending money to make money, he notes. "I'll spend \$10—as long as I know it's going to make me \$12.50."

It may seem like splitting hairs, but Nichols' philosophy makes him a purchaser, not a buyer.

Two-way loyalty. He prefers to develop relationships with local or regional suppliers and use size of scale to wrangle discounts or consideration when needed. This attitude benefits him and his suppliers.

When a late freeze put the hurt on his wheat crop this spring, for example, Nichols killed 500 acres and replanted it to corn. He obtained the hybrids he needed because he has been loyal to his seed supplier.

"Some growers spend all winter pricing chemicals to find a bargain," Nichols says. "It takes me about two hours to order what I need. I just can't

see that you save anything by wearing your retailer out over 25¢ a gallon," Nichols says.

For the same reason, he buys few products through the Internet. Price discounts don't justify the lack of flexibility if he changes his herbicide or fungicide programs. Losing the personal relationship with the vendor means losing valuable leverage.

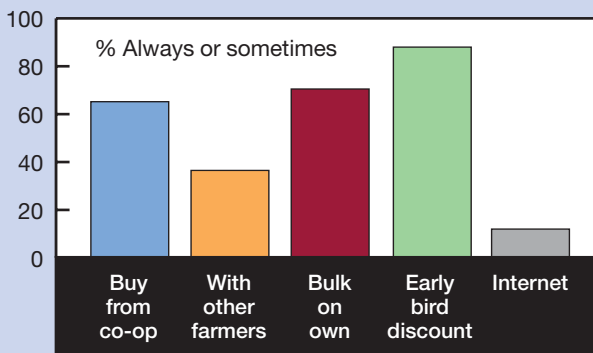
Machine trades. Nichols trades major machinery every year and uses the same philosophy. "I'm not saying I won't shop at different dealerships or for different colors," he says. "But for the most part I do business with one dealer because I know what he'll do for me. And I buy machines that I know will hold their value." ▶

Strategies to keep costs under control

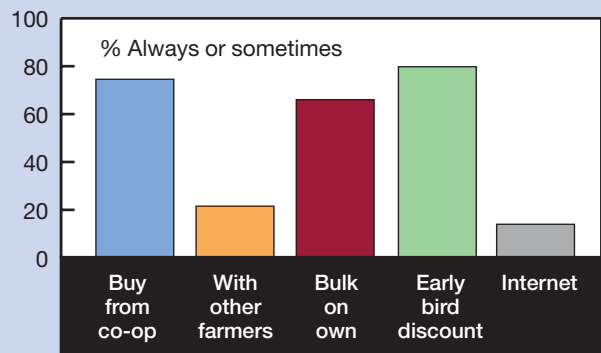
The biggest demand-driven acreage shift in history has squeezed pipeline capacity and pushed production costs—from fertilizer and fuel to grain bins and land—sharply higher. Of course, there's no single, "best" way to keep costs under control, but a survey of our readers shows the majority widely embrace early-bird discounts and sometimes or always buy from a co-op (see charts).

Most of the farmers answering our survey also sometimes buy used machinery. And the Internet plays a much bigger role in shopping for machinery than yearly for inputs—67% compared with about 15% (for these and more survey results, visit www.ToProducer.com). —Linda H. Smith

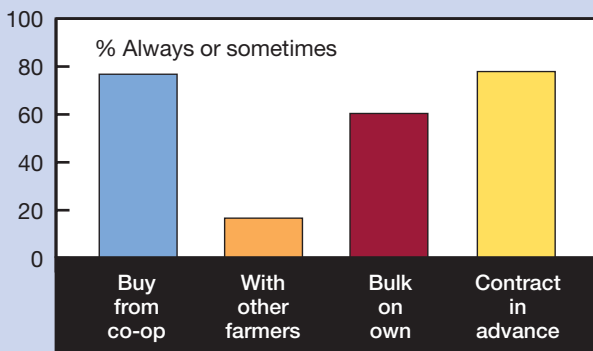
Seed: Early Bird Gets the Worm



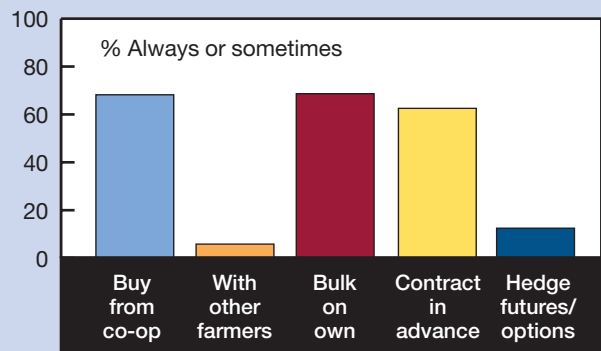
Crop Protection: Big Role for Co-ops



Fertilizer: Contract in Advance



Fuel: Buy in Bulk



Multi-unit discounts coupled with discounts for buying new makes yearly trading an advantage for Nichols. For example, it costs him \$6/acre for each \$250,000 combine to harvest his crops with an interest waiver and full warranty.

"You have to have enough equity in the machine so you would not stretch your cash flow if you decide not to trade—your payment would be less than or equal to the trade cost," he says. "A lot of my machines have more than 50% equity."

The only downside to using new equipment is the first few hours of operation, he adds. "Manufacturers are forced to commercialize new technology before it is fully tested and they are outsourcing much of their small-parts production. It's almost always a 25¢ switch that shuts us down on a new machine, and finding the problem can be a real nightmare."

Pickups are another deal he can't afford to pass up. Using his GM card to buy the truck and other goods, he accumulates enough points to trade trucks each year for differences that would be equal to a couple of payments for most folks.

This is the most optimistic time in agriculture that we've ever had

Need for speed. It's efficiency that pushed Nichols to bump the farm's grain storage by 250,000 bu. to reach 1 million bu. He stored

272,000 bu. on the ground last year and figures he lost 5,000 bu. to spoilage. "I work too hard to make grain to lose it that way," he says.

When he boosted increased corn acres again this year, Nichols also knew he wanted to have enough facilities to be able to keep the dryer running without having to stop harvest. The new facility pushes wet holding capacity to 45,000 bu. He also tore out a nearly new (2003-vintage) dryer to install a 2,000-bu.-capacity dryer

with the ability to remove 10 points of moisture from 29,000 bu./day.

At a cost of \$1.05/bu., the new granary represents a \$1 million capital investment, but Nichols figures it will pay for itself in two to three years given his basis and current price levels.

Last year's bumper corn crop coupled with record prices and \$1.04/bu. patronage fees from his local ethanol co-op give farming a rosier glow. It's easier to be bullish when corn is more than \$4 and your corn operating budget is built on a \$2.60 break-even, Nichols says. "This is the most optimistic time in agriculture that we've ever had," he believes. "Those who take advantage of that will be successful." ■

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PROFILE: Joe Nichols, 42 Seven Springs Farms Wallonia, Ky.

ROOTS: As a teenager in the late 1980s, Nichols was forced to watch his family farm sell in a liquidation auction. The experience still influences his attitude about spending money and taking on debt. "Much of my expansion has been with cash and I like it that way," he says.

FAMILY: Wife KaDonna; daughters Heather, 16, and Macy, 15; brother Todd. Hopes one day his daughters and nephews will take over the operation. "I know what a disadvantage young people face in getting started in agriculture," he says, having started from scratch himself. "If I can work for 20 years and leave it for them to take up and run with, I have served my whole purpose."

GETTING STARTED: Started and ran a tractor maintenance/repair shop;

managed a John Deere dealership. Since starting to farm part time in 1994 (full time in 2000), acreage tripled. Last year, added 3,000 acres and a small cattle enterprise, which joined corn, wheat, soybeans and tobacco. Has already locked in another 1,000 acres coming out of CRP in 2008.

PRODUCTION: "We don't have any trouble adopting new technology," says Nichols, who plants 20" corn, uses GPS, grid soil sampling, harvest yield maps, and auto steering on tractors, sprayers and combines.

FAIRNESS: Nichols believes Seven Springs Farm's awards in the National Corn Growers Association's yield contest helped him gain the respect of his input providers. He credits his seven employees for the results. In fact, they split the prize money. "It reflects on their work," Nichols says. "They know that every turn they make in the field could be the one that costs us $\frac{2}{10}$ of a bushel and the winning place."

