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Rates Paid for Custom Work in South Dakota

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Rates Paid for Custom Work In South Dakota

Increased investment in machinery on farms and ranches today causes many operators to consider hiring some of their work done in an effort to reduce the amount of money tied up in machinery. Custom hire enables farmers to obtain the benefits of high cost, specialized machines without incurring the ownership costs that are difficult to justify on the basis of low annual use.

Owners of these machines and those who hire the use of them are interested in knowing what rates are fair to both parties. One guide is the typical or customary rates that are currently being charged. This publication was developed to show average rates, the rates most frequently reported, and ranges in rates for the major custom operations performed on farms and ranches in the state. These are shown first for the state as a whole, and also for the seven economic areas of the state. The counties comprising each economic area have similar agricultural, demographic, and climatic conditions; therefore, these areas provide a logical breakdown to analyze custom rates.

Custom rate information was compiled by means of a detailed questionnaire mailed to county agricultural agents, custom machine operators, and agricultural related businesses throughout the state.

CUSTOM RATES

Custom rates reported in Tables 1 and 2 include the charges made for the use of the machine, the time of the operator, necessary mechanical power, other supplies furnished—such as tractor fuel, wire or twine for the baler—plus an allowance for risk and overhead. The cost of any material applied (such as seed, chemicals, or fertilizer) is not included.

The range shown for each operation indicates that custom rates vary considerably when viewed on a state-wide basis. Generally speaking, the lowest rates are found in the western and central part of the state, which are well suited to extensive operations involving larger machinery. Slightly higher rates are generally found in the eastern one-third of the state where fields are smaller, the terrain more rolling, and the equipment more adaptable to smaller acreages. There are, however, exceptions in all areas of the state. Variations in rates are often influenced by the time required to perform the operation. This in turn often depends on the following:

1. Size, shape, and topography of field.
2. Differences in size and type of equipment.
3. Crop condition and yield.
4. Weather during the season.
5. Competition for custom work in area.
6. Distance to job.
7. Profits expected by custom operator.

The number of reports received for each custom operation on a state-wide basis is also included in Tables 1 and 2, and by comparison, reflects the extent of custom hire for the different farm operations. In certain economic areas there was no “most frequent rate” for a very limited number of custom operations. All rates reported from these areas were different. In these cases, the median rate was selected.

It should also be recognized that various tillage, planting, and harvesting operations exist in South Dakota, depending upon the major crops grown in each area. For this reason, the same specific operations were not reported for all economic areas.

Due to the wide variation in rates reported for some operations, the state and area averages may not be typical of any particular local situation. In these cases, the most frequent rate reported would perhaps be more representative of many localities. This report makes no attempt to evaluate the fairness of rates currently being charged, nor is it an attempt to establish custom rates for any area of the state. It should be used only as a guide in arriving at a rate agreeable to the custom operator and the farmer who hires his services.

FIGURING CUSTOM RATES

Often farmers have to determine custom rates for new or unusual custom jobs when there are no prevailing market rates for these operations. A procedure that can be used in determining these rates is included in this publication. It can also be used to evaluate the fairness of existing rates. Ownership and operating costs must be taken into account in this procedure. Ownership costs quite obviously result from owning something. Depreciation, interest on investment, repairs, taxes, insurance, and housing represent ownership costs. These are costs that are incurred to a large degree whether the machine is used to the fullest extent or allowed to remain idle. Repairs also have some operating cost characteristics since they normally increase as annual use increases. However for this analysis, repair costs are considered...
an expense of owning the machine and expressed as a percentage of the original cost.

Operating costs include fuel, oil, grease, and other out-of-pocket expenses for minor maintenance. A value is also placed on operator labor, since it is assumed that this labor could profitably be used in some other enterprise if the operator were not doing custom work. Total ownership and operating costs should be increased 10 to 15% to allow for risk, uncertainty, and a profit margin in arriving at a fair and equitable custom charge.

Detailed information concerning fixed and variable costs used in this analysis may be found in EC 664, "Machinery Costs—Own, Lease, or Custom Hire."

### HOW TO ESTIMATE CUSTOM RATES

#### A. Ownership (fixed) cost per unit (acre, bushel, ton, hour)

- **Depreciation:**\[ \frac{\text{original cost} - \text{salvage value}}{\text{estimated life}} \]

- **Interest:** Estimate at 5 to 7% x \[ \frac{\text{original cost} \times 2}{2} \]

- **Repairs:** Estimate at 3 to 5% of original cost

- **Taxes, Insurance, Housing:** Estimate at 1½ to 2½% of original cost

**Total annual ownership cost**

Ownership cost per unit: Total annual ownership cost divided by estimated annual use (acre, bushel, ton, hour)

#### B. Operating (variable) cost per unit (acre, bushel, ton, hour)

- **Tractor:** Gas, oil, maintenance—Gal. gas per hour x price x 1.15†

- **Machine:** Gas, oil, maintenance—Gal. gas per hour x price x 1.15†

- **Operator Labor:** Wage rate per hour

**Total operating cost per hour**

**Operating cost per unit:** If acres, bushels, or tons divide total operating cost per hour by acres, bushels, or tons per hour

#### C. Total estimated ownership and operating cost per unit (A+B)

#### D. Increase C by 10 to 15% to cover risk, uncertainty, moving from job to job, and profit margin

#### E. Custom rate per unit (C+D)

*Interest on declining balance basis.
†The addition of 15% to gasoline cost is for oil, grease, and minor maintenance.
## Table 1. Custom Rates Paid for Preharvest Farm Operations, South Dakota

<table>
<thead>
<tr>
<th>OPERATIONS</th>
<th>AREA 1</th>
<th>AREA 2</th>
<th>AREA 3A</th>
<th>AREA 3B</th>
<th>AREA 4A</th>
<th>AREA 4B</th>
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<td>Disking, tandem</td>
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<td>Stalk shredding</td>
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<td>Mounted or trailer</td>
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</table>

*Fertilizer and or herbicide furnished by farmer. Includes cost of 2,4-D3 material.*
An additional charge of $.05 per bushel over 20 bushel yield is common in areas 1, 2A, and 2B. Additional hauling charges of $.03 to $.06 per bushel, depending upon distance, were frequently reported.