

Fleet Size and Fertilizer Applicator Profitability

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In my last newsletter I commented on our recent research on the profitability of fertilizer and chemical application activities in Oklahoma cooperatives. Sometimes research points to clear trends and sometimes it underscores the fact that success is a complex balancing act. As I highlighted in the last newsletter, machine utilization appears to impact profitability but the most profitable cooperatives were somewhere in the middle in terms of acres/machine. The margins on fertilizer and chemicals clearly enter into the picture. Perhaps the cooperatives with the very highest acreage/applicator were covering more low margin crops and applying lower amounts of fertilizer and lower margin crop protectants.

We also considered whether the cooperative structure in terms of number of branch locations and the size of the applicator fleet impacted profitability. Profitability varied by branch location but the highest performance was again in the middle. The smallest quarter of cooperatives with an average of 1.25 locations average 8.8% gross profit/sales. The largest quarter with an average of 9 locations averaged 15% and the 50% in the middle averaged 18%. It would appear that larger cooperatives gain some efficiency from sharing equipment across locations but some locations may be less profitable. There was a clear trend between profitability and the size of the applicator fleet. Profitability increased from 8.7% for the quartile with the fewest applicators (1.5 on average) to 18.2% for the largest quartile averaging 7.3 machines. One explanation would be that cooperatives with larger fleets are better able to match the right machine (floater versus row crop) to the job.

One result that is clear is that the profitability of the fertilizer and chemical application activities varies across cooperatives. Benchmarking this business unit may be more complex than I anticipated. Perhaps it's time to roll up our sleeves and take a close look at your operation.

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