

Transport
A Self Study Guide for Members and Staff of Agricultural Cooperatives

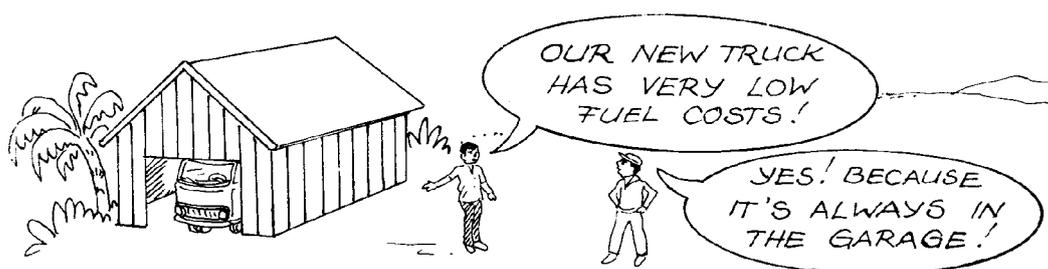
LESSON FOUR: Buying vehicles



Objective: To explain the issues that must be considered when buying a vehicle and show how following a set procedure of information gathering and comparison can help to avoid costly mistakes.

If purchasing proves to be the most economical solution to your transport problems, it is essential to buy the right vehicle at the right price and to find the most economical way of financing and paying for it. As everyone knows, it is easy to make mistakes.

- The committee of Highland Co-operative compared only the fuel costs of several vehicles. It decided to buy a truck with very low petrol consumption. This turned out to be a costly mistake, because it later proved impossible to obtain spare parts for this particular model. The truck was off the road most of the time. The co-operative was forced to hire other vehicles.



- Greenland Co-operative fell in another trap. It urgently needed a truck but had problems in raising the money needed. When the committee members eventually found a dealer who offered generous credit terms, they were eager to buy a second-hand truck from him. In their haste, they failed to check the vehicle properly. It was in poor condition and had to be scrapped after a year.



In both cases, the buyers were so impressed by one particular detail that they forgot to consider others, perhaps more important.

To minimise the chances of such error in buying a vehicle, it is a good idea to follow a fixed procedure, like this one:

- i. Define the functions and the specifications of a suitable vehicle. What do you want your vehicle to do? What features must it have to do what you expect?
- ii. Gather information on suitable vehicles that are available.
- iii. List and compare data on these vehicles.
- iv. Compare terms of financing and payment for the vehicle; choose the most feasible for your co-operative.

Let us take a closer look at these steps.

Functions and specifications

Before even looking at a vehicle you have to identify precisely what you want it for. What do you expect it to do and what features are thus essential? The vehicle must fit the society's needs. You must define your basic requirements as follows:

- ***Payload capacity***
What size loads will generally be carried; volume, weight?
- ***Body type***
What types of loads will generally be carried; in bulk or bags?
- ***Suitability for local roads***
What are road conditions in the area? Is there a need to drive in rough terrain? Are extra sturdy construction and 4-wheel drive needed? Are there vehicle limitations - maximum length and weight - due to road regulations, bridge capacities, etc.?

You may find several vehicle models with the basic features you need. But you must consider other factors as well. Those listed below can be of great importance in the usefulness of the vehicle to your co-operative.

- ***Maintenance***
How often is it required? Where can it be done? What does it cost? Can your drivers do it easily?
- ***Spare parts and tyres***
Are they always available?
- ***Guarantee***
- ***Cost of licence and insurance***
- ***Fuel consumption and cost***
- ***Attitude of drivers***
Can they drive it? Do they like it?
- ***Purchase cost***
Cash or credit terms?
- ***Vehicle value after five years***

Gather information

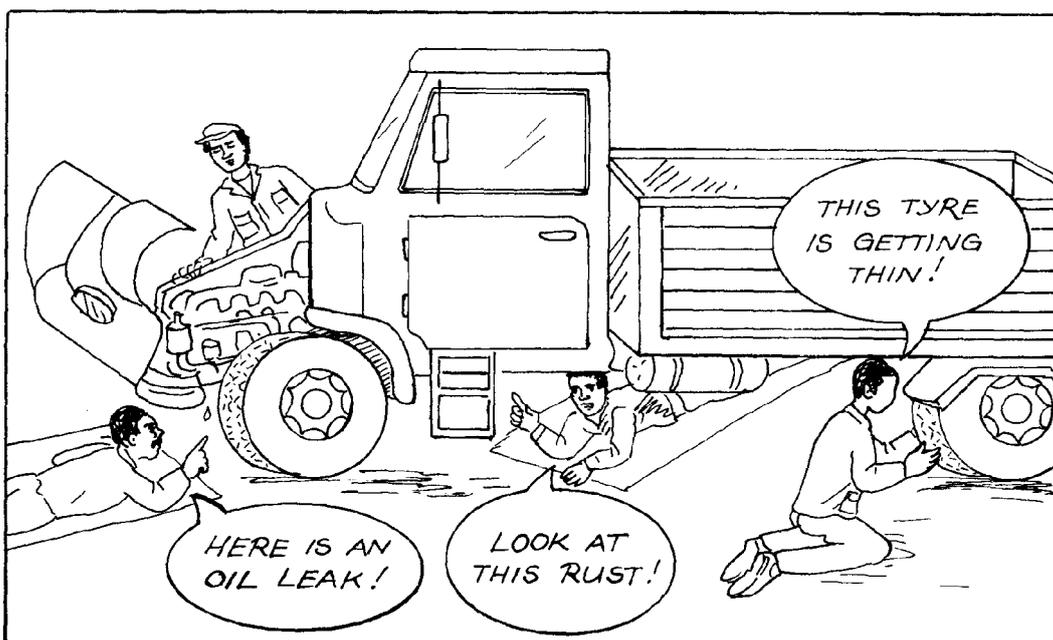
Once you have listed the expected functions and specifications you require, you need to begin gathering information on vehicles. What sources of information are there?

- ***Manufacturer's agents***
They know technical details better than anyone else - but their profit depends on their sales. They are likely to be biased in favour of their own products.
- ***Other users***
People employing the same type of vehicle for the same kind of work can be excellent advisers.
- ***Maintenance garages***
Mechanics experienced in servicing the vehicle in question can provide accurate information - if they are not also sales agents for particular vehicles.
- ***Second-hand dealers***
These can offer advice if they carry a variety of makes and do not try to sell you a particular one.
- ***Journals and magazines***
These carry not only advertising (which can be informational even if biased) but occasional articles that may be relevant.

Prepare a list of data

To facilitate both the comparison of vehicles and the final decision on which to buy, it is a good idea to compile your information in a clear and concise table. There is an example on the next page which compares two new vehicles (Apollo and Rex) and a third one (Sabo) which is used but in good condition.

Do not forget to investigate the possibilities of buying a second-hand vehicle. While some of its operating life has been used, it will obviously be cheaper to buy - but evaluation is critical. Try to borrow the vehicle for an extended testing period. Have a qualified mechanic do a complete inspection. You might ask the seller to guarantee the vehicle for a certain period.



A comparison of three vehicles

Vehicle feature	APOLLO new	REX new	SABO used
Payload (tons)	9	6	6
Length (m)	7.5	5.5	5.3
Suitability for rough terrain	GOOD	FAIR	GOOD
Maintenance - location	GEORGETOWN only	GEORGETOWN BOLA, KRIMA	BOLA KRIMA
Maintenance cost per 15,000 km	1,000	750	1,500
Availability of spare parts	GOOD	FAIR	GOOD
Guarantee	6 months	6 months	—
Licence, insurance cost	750	500	300
Fuel cost per 15,000 km	1,800	1,500	1,600
Driver attitude	+	++	+
Purchase cost; cash	20,000	15,000	8,000
Purchase cost; credit	23,000	17,000	N.A.
Credit terms	2 years via bank	2 year Supplier	—
Value after 5 years	10,000	6,000	0

You are not likely to find a vehicle that fits all your specifications. What are the most important? What can you ignore if necessary? In general, low initial cost, fuel economy and ideal load capacity are perhaps less important than reliability and availability of spare parts.

In the process of deciding which vehicle to buy, it is important to fully involve the people most concerned: the man in charge of the society's transport operations and the drivers. They will have to deal with the vehicle every day. They know what is needed and what problems are likely to arise. Do not ignore their advice.

Paying for the vehicle

Finally, how do you pay for your vehicle?

- Even if your society has enough money in the bank to buy it outright, should you do so?
- If the bank is willing to loan you the money for the vehicle, should you necessarily take it?
- If you do not have the money and cannot borrow it from the bank, do you have any alternative?

The answer may be credit from the supplier. This is commonly offered as encouragement to the purchaser and must be evaluated just like any other feature of the vehicle.

The table below shows different ways of paying for a truck priced at T\$20,000 in cash.

	Cash	Bank loan	Hire purchase
Initial payment	T\$ 20,000	-	T\$ 5,000
Later payments	-	T\$500 per month for five years	T\$600 per month for 3 years
Total payment	T\$ 20,000	T\$ 30,000	T\$ 26,600

What is the best alternative? In terms of total cost, obviously cash is the cheapest, followed by hire-purchase and bank loan, in our example.

But total cost may not be the only consideration. Suppose, for instance, that a co-operative society needs a truck, but at the same time it needs to buy another important piece of equipment and to pay its members for their crops. The society has some cash, but not enough for all three purposes. The bank is willing to advance a loan for one of them but not more. In this situation, the credit offered by the vehicle supplier (the hire-purchase alternative) could be the additional source of money needed by the society to develop its business as planned. If the co-operative were to use its available cash to buy the truck (the alternative which at first glance appears cheapest), it would in fact be more "costly"; the society would be unable to provide another vital service.

This example shows that decisions on payment must be made in view of the whole picture. Management must find the best overall solution for the actual situation.



When buying a vehicle for your co-operative:

1. What are potential mistakes to avoid?
2. What are the most common problems facing truck owners in your area? What can you do to avoid them?
3. What people might you ask for advice?