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An Analysis of the Marketing Practices of Selected Retail Farm Equipment

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AN ANALYSIS OF THE MARKETING PRACTICES OF SELECTED RETAIL FARM EQUIPMENT DEALERS IN NORTH DAKOTA

by

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF ILLUSTRATIONS

ABSTRACT

The purpose of this thesis is to describe and analyze the marketing practices involved in leasing farm equipment by selected independently owned and operated farm equipment dealers in North Dakota. The data for this study was obtained by personal interviews of farm equipment dealers who lease.

Farm equipment retailing has its origins in the hardware store of the nineteenth century. Retailing of farm equipment in North Dakota began in the late 1800's. The North Dakota Implement Dealers Association was formed in 1899.

Leasing is a relatively new method of marketing farm equipment. Farm equipment lessors felt that adequate capital was the most important factor in establishing a leasing firm. Evidence indicates that a dealer can most successfully lease new, high-cost farm implements.

Direct mail is the most commonly used method of advertising equipment to be leased. One-half of the farm equipment dealers advertised their leasing business. Publicity plays a large role in the promotion policies of farm equipment lessors. Few of the firms

trained salesmen to sell lease contracts. The most often cited advantage of leasing presented in promotion by lessors, was the fact that leasing freed the capital of the farmer for other investment purposes.

The majority of the farm equipment lessors based the lease rates on a fixed percentage of the retail price of the machine. This lease rate varied between 20 and 30 per cent of the retail price of the machine. Leasing firms experienced an annual growth rate in sales of approximately 20 per cent annually for the past three years.

The future success of firms which lease farm machinery depends upon the applications of modern marketing techniques to the leasing business.

CHAPTER I

INTRODUCTION

Purpose and Scope

The purpose of this thesis is to describe and analyze the marketing practices involved in leasing farm equipment by selected independently owned and operated farm equipment dealers in North Dakota. Marketing is defined by the committee on definitions of the American Marketing Association as "the performance of business activities that direct the flow of goods and services from the producer to the consumer or user."[1] The Standard Industrial Classification Manual, of the Federal Bureau of the Budget, defines farm equipment dealers as those "establishments primarily engaged in the retail sale of farm machinery and equipment and farm production

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[1]The Committee on Definitions of the American Marketing Association, Marketing Definitions, (Chicago: American Marketing Association, 1960), p. 15.

supplies. These establishments also usually carry lines of farm hardware and miscellaneous supplies."[1]

Equipment is defined by the Committee on Definitions of the American Marketing Association as "those industrial goods that do not become part of the physical product and which are exhausted only after repeated use, such as machinery, installed equipment and accessories or auxiliary equipment."[2] In this study the equipment referred to is the machinery which farmers use in the production of basic farm commodities.

In the farm and industrial equipment industry numerous instances can be found where equipment is leased or rented under either long-term or short-term arrangements. Long-term arrangements are usually considered to be those that are more than two years in length. Short-term arrangements are under two years in length and sometimes referred to as "rentals."[3] Both long and short-term leasing practices will be included in this thesis.

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[1]Standard Industrial Classification Manual, Executive Office of the President, Bureau of the Budget, Percival F. Brundage, Director, (Washington, D. C., U. S. Government Printing Office, 1957), p. 155.

[2]Marketing Definitions, p. 12.

[3]Dealers Leasing and Renting Guide, Leonard L. Wilson, (St. Louis, Missouri, 1968), p. 4.

In the legal sense, a grant of the use and possession, in consideration of something to be rendered, constitutes a "lease" of the thing possessed.[1] A "lease" usually implies an instrument by which exclusive possession of property is given for a limited period."[2] Leasing then, can be defined as conveying property to another for a definite period, or at will, in consideration of rent or other compensation.

The scope of this thesis is confined to the marketing practices involved in leasing by those dealers who belong to the North Dakota Implement Dealers Association, a state trade association. The dealers surveyed represent all the members of the Association who have an established leasing program.

Limitations

The study will be limited to those farm equipment dealers who are members of the North Dakota Implement Dealers Association and who participate in an established leasing program. Although firms which do not belong to the association are not included in this study, it is hoped that the data obtained are representative of the farm equipment dealers in North Dakota who conduct a leasing program.

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[1] Words and Phrases, Permanent Edition, Volume 24A (St. Paul, Minnesota: West Publishing Co., 1966), p. 251.

[2] Ibid.

Approach

The structure of this study consists of four major parts: (1) review of available literature pertaining to leasing, farm equipment retailing, and the history of farm equipment retailing and the North Dakota Implement Dealers Association; (2) a personal survey of the farm equipment dealers who lease; (3) evaluation of the data from the survey, and (4) description of findings and conclusions.

The questionnaire design was tested on May 19, 1969 at Kennedy, Minnesota. The questionnaire was subsequently modified and the survey undertaken June 2, 3, and 4. A total of 19 implement dealers were interviewed. This represents all the firms presently engaged in leasing in North Dakota.

Two corporations included three firms each. The subunits of these corporations were under separate management and interviewed separately.

Chapter Organization

Chapter II discusses the history of farm equipment retailing in the United States and in the state of North Dakota. A brief history of the North Dakota Implement Dealers Association is included.

Chapter III is devoted to the description and analysis of the marketing practices of promotion, pricing and the services offered by the lessors of farm equipment.

Chapter IV contains a summation of the thesis, and the author's conclusions regarding the farm equipment industry in North Dakota.

CHAPTER II

HISTORY OF THE FARM EQUIPMENT RETAILING INDUSTRY

Development of Farm Machinery 1830-1915

Farm equipment retailing has its origins in the hardware store of the nineteenth century. During this era the farm equipment purchased by the farmer was mainly of the hand tool and harness variety. The hardware and machinery selling functions became separated with the development of the reaper and steam engine. The hardware store was not equipped to handle the mechanical aspects and inventory problems which these more sophisticated machines presented, so dealers qualified to sell farm equipment emerged as separate businesses.

"The first patent granted in America for a reaping machine was to Richard French and T. J. Hawkins of New Jersey, May 17, 1803."[1] Several versions of this machine were soon being manufac-

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[1]Merritt Finley Miller, The Evolution of the Reaping Machine (Washington: Government Printing Office, 1902), U. S. Department of Agriculture Bulletin, p. 103.

tured by different companies. Cyrus McCormick applied for, and received, a patent on his reaper on June 21, 1834.[1] This eminently successful machine became the foundation for a firm which became a leader in the farm equipment industry. The first threshing machine was developed by Hiriam and John Pitts, of Winthrop, Maine, in 1834. The machine was powered by horses but its features were incorporated into the later machines built for steam power operation.[2]

The increased power needs of the farmer, especially for threshing purposes, led to the adaptation of steam engines to farm uses. The first portable steam engines designed for agricultural use were manufactured in 1849. Several different people began manufacturing them simultaneously. Steam power became increasingly popular and dominated the farm power scene from 1885 until 1915, reaching a peak in about 1913.

The decline of the use of steam power was caused by the introduction of the gasoline tractor. The gasoline farm tractor was in use experimentally as early as 1892 but few were sold prior to 1900. The first really successful gasoline tractor built in the United

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[1]Merrit Finley Miller, p. 17.

[2]Reynold M. Wik, Steam Power on the American Farm (Philadelphia: University of Pennsylvania Press,. 1953), p. 16.

States was developed in 1902.[1] Manufacturers of gas tractors proliferated in the following years. These tractors soon replaced steam power on the American farm.

Retailing Farm Machinery in North Dakota

These early machines; the reaper, the thresher, and the steam tractor, formed the inventory of the implement dealer between 1830 and 1910. They were used in North Dakota during the years of the "bonanza farmer" who needed machines to cultivate the vast acreage he acquired. The farmer found that the use of machines was the quickest way to increase his acreage, production and wealth. The manufacturers felt that a machine which withstood the rigors of operation on these farms could be operated successfully anywhere.

The Hudson Bay Fur Company sold mowers and miscellaneous equipment to the settlers of the Red River Valley during the 1860's.[2] This seems to be the first attempt at retailing farm equipment in North Dakota. The Hudson Bay Company did not market farm equipment on a large scale and soon withdrew from the endeavor entirely. No data are available to disclose when the first implement dealer located in the state of North Dakota. Evidence indicates that

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[1]Reynold M. Wik, p. 203.

[2]History of the Red River Valley, by various writers, Vol. I, (Grand Forks: Herald Printing Co., 1909), p. 356.

early entrepreneurs were small, somewhat unreliable businesses. Because of the inadequacies of these farm equipment retailers, the early "bonanza farmers" found it necessary to go to St. Paul, Minnesota, to purchase their farm equipment as late as 1875.[1]

It soon became unnecessary to go to Minnesota to purchase farm equipment. The extension of the railroad was an important link in the distribution system. The opportunities for profit presented by the large demands in the Red River Valley lead a rush by the manufacturers to establish branches in this area.

> In 1879 several of the different harvesting machine companies, some of which comprise the present International Harvester Company of America, opened branch houses in Fargo, some locating their branches at Grand Forks in order to place their stock of extras and machines near the settlements and the machine trade was worked from these points.[2]

These early branch houses evolved into the present day factory distribution outlets. Fargo is still the largest machinery distribution center in North Dakota.

The farm equipment dealers continued to thrive after the decline of bonanza farming. Table 1 indicates the growth and sales pattern for farm equipment dealers from 1929 to 1968. Accurate records of the actual number of retailers who could qualify as farm

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[1]History of the Red River Valley, p. 201.

[2]Ibid., p. 357.

equipment dealers in North Dakota, are not available prior to 1929.

TABLE 1

FARM EQUIPMENT DEALERS AND SALES 1929-1968

Year	Number of Dealers	Sales ($1,000)
1929[a]	482	16,163
1935[a]	426	7,659
1939[a]	336	6,963
1948[b]	573	82,293
1954[c]	498	75,033
1958[d]	469	96,227
1963[e]	400	110,594
1968[f]	411	150,000

[a]U. S. Bureau of Census, Census of Business: 1939 Vol. 1, Retail Trade Statistics, Part 3, Kinds of Business by Areas, States, Counties & Cities, U. S. Government Printing Office, Washington, D. C., 1941, p. 59.

[b]U. S. Bureau of Census, U. S. Census of Business: 1948, Bulletin No. 1-R-33, Retail Trade, North Dakota, U. S. Government Printing Office, Washington 25, D. C., p. 33.02.

[c]U. S. Bureau of Census, U. S. Census of Business: 1954, Retail Trade Area Bulletin, R-1-1, U. S. Summary, U. S. Government Printing Office, Washington 25, D. C., pp. 1-54.

[d]U. S. Bureau of Census, U. S. Census of Business: 1958, Retail Trade, BC 58-RAL, U. S. Summary, U. S. Government Printing Office, Washington 25, D. C., pp. 1-43.

[e]U. S. Bureau of Census, Census of Business: 1963, Vol. 2, Retail Trade Area Statistics, N. Carolina to Wyoming, Guam & Virgin Islands, U. S. Government Printing Office, Washington 25, D. C., pp. 35-6.

[f]Figures estimated by the North Dakota Implement Dealers Association, R. C. Williams.

The formation of an implement dealer's association in 1889 indicates approximately a hundred farm equipment retailers in the Red River Valley. It is impossible to determine how many of these dealers resided in North Dakota. The information available indicates that the number of dealers rose and fell with the fortunes of the farmer. In "good" times dealerships proliferated while in "bad" times the number of retailers declined. In each cycle the marginal operators were forced out of business. The sales fluctuated with the vagaries of the weather and fortunes of the harvest.

A Brief History of the North Dakota Implement Dealers Association

The North Dakota Implement Dealers Association has its origin in the Red River Valley. In 1899, a group of Red River Valley Implement Dealers got together in Grand Forks to discuss the difficulties of the industry at that time. The group decided to meet in Minneapolis on January 22, 1900, to formulate organizational plans with J. J. Dougherty of Park River as chairman and James McPhail of Langdon as temporary secretary. Committees were established and calls sent to the dealers to assemble in Fargo on February 21, 1900. Nearly one-hundred dealers gathered that day and an organization known as "The Retail Implement Dealers Association of North Dakota and Northwestern Minnesota"[1] was formed. A constitution and by-laws were adopted and permanent officers were elected.

The association's objectives were listed as including provisions to "protect the retailer from 'retail sales' being made by the jobbers and manufacturers and providing penalties therefor." Other objectives listed were aimed at ending the policies of "price cutting" which were then quite prevalent; at establishing more uniform prices; and increasing the standing of the implement dealer in his community.[2]

The association was instrumental in the following years, in introducing new developments to its members. Mr. W. H. Higham, of Grand Forks, spoke on "Gasoline Engines for Threshing Purposes," during the convention of 1901. His report was received without enthusiasm. At the Grand Forks convention in 1910, Mr. A. Y. More spoke on "The Use of Gasoline Engines as a Farm

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[1] North Dakota Implement Dealers Association Sixty Year Digest, ed. George Dixon, (Fargo, North Dakota: Pierce Printers, 1959), p. 26.

[2] Ibid., p. 26.

Tractor." This report was received a little better as he reported that 3,000 acres of land had been broken, seeded, harvested, and hauled to market without the use of a horse. The early arrival of a "horseless" age was predicted.

Other functions of the association began to develop during these early years. Protection of the implement dealer was a primary objective. The association endorsed legislation which was felt to benefit the group, spoke out on topics and business practices which affected its members, and organized the Implement Dealers Mutual Fire Insurance Company.

During the 1912 convention of the North Dakota Implement Dealers Association, Mr. Curtis M. Johnson spoke on the "Cost of Doing Business." The association then commenced an annual cost of doing business survey, the results of which were published for its members. This survey has continued to the present time.

"At the fifteenth convention, held in Fargo in 1914, the organization changed its name to the North Dakota Implement Dealers Association, which has been retained until the present time."[1]

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[1]North Dakota Implement Dealers Association Sixty Year Digest, p. 27.

During this period the association adopted several resolutions calling for complete honesty in advertising, and the statement of facts instead of promises in the advertising of manufacturers and jobbers. Another resolution, which had been called for earlier, to end retail selling by manufacturers and jobbers, was repeated at this time. This practice continues to be a problem.

The years 1922 and 1923 were difficult times for farm equipment dealers. Business conditions became better from 1925 until 1931. The depression forced the cancellation of the annual meeting in 1932 but several regional meetings were held in an attempt to aid the individual dealers. Taxation and legislation were important topics during the conventions of succeeding years.

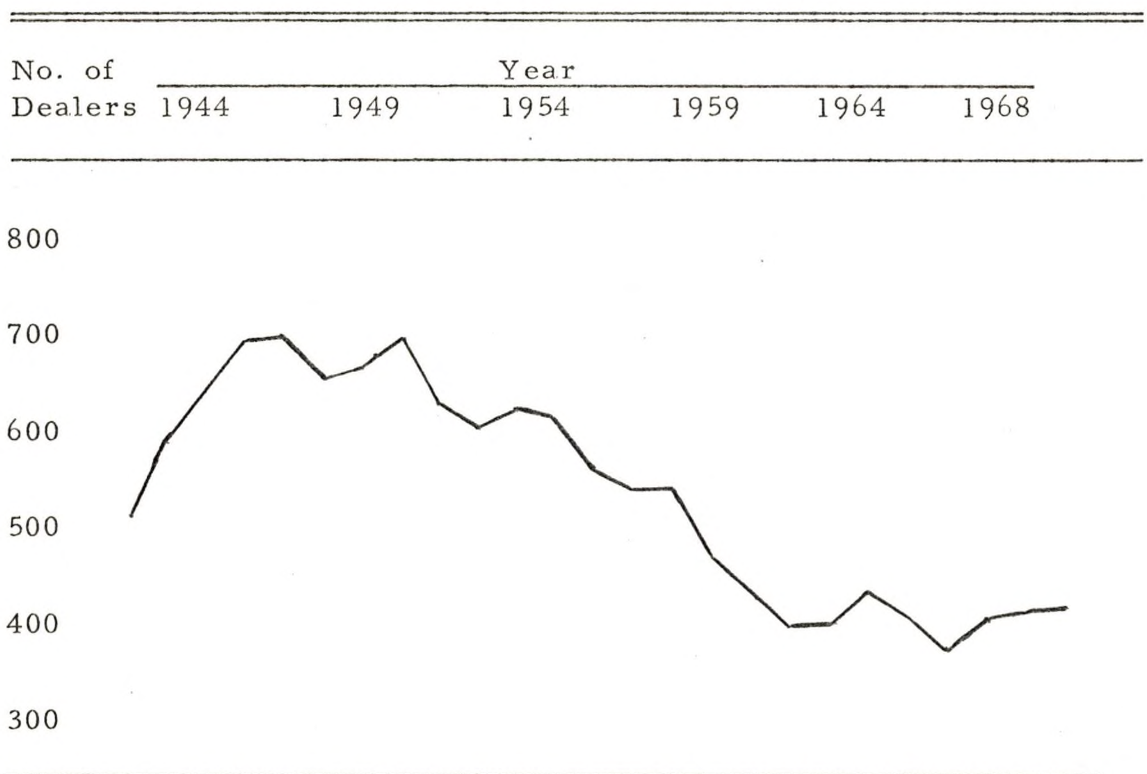
In 1939 the convention approved affiliation with the then new National Retail Farm Equipment Association. During the war years of 1942 the Association held the annual conventions as a series of "conferences" aimed at helping the dealer with retail selling problems, production, marketing and other timely subjects. After the war, the annual convention with exhibits became the accepted practice again. The Association established an active lobby in Bismarck after World War II which it maintains to this day.

The number of dealers affiliated with the Association is not available prior to 1944. The membership is shown in Graph 1, from 1944 to 1968. The membership shown represents the dealers affiliated with the association at the end of the fiscal year. Affiliation with the association is not mandatory but membership is usually a high percentage of the dealers in the state.

GRAPH 1

NORTH DAKOTA IMPLEMENT DEALERS

ASSOCIATION MEMBERSHIP[a]



[a]From North Dakota Implement Dealers Association records.

The association continues to aid dealers in meeting the challenges of a dynamic farm market. Marketing, management, and profit making business practices are stressed during the annual conferences. New ideas and improved business practices are brought to the dealers' attention to aid them in maintaining their share of the market. The concept of leasing farm equipment was a convention topic in December, 1968. The methods of selling this program, the proper legal forms to use, methods of arriving at an equitable lease rate, income tax regulations and various types of leases were discussed. Some of the problems encountered by the dealers were pointed out. Dealers were advised about factors to consider before going into the leasing business.

No study of the regional leasing practices has been conducted. The study of the marketing aspects of leasing has been undertaken because it is felt that this function is essential to the future development of leasing. The following chapters of this study will attempt to describe and analyze the promotion practices, pricing practices and the services offered, by lessors of farm equipment in North Dakota.

CHAPTER III

MARKETING PRACTICES OF FARM EQUIPMENT LESSORS IN NORTH DAKOTA

General Information

The purpose of this chapter is to describe the marketing practices of the firms in North Dakota who lease farm machinery.

The mean number of years of leasing experience of eighteen firms was four years. The remaining firm stated that it had leased, as well as sold, farm equipment for thirty-seven years. Nine of the firms had been in the leasing business four years or less. Four of the firms had been in the business of leasing only one year.

Ten of the firms interviewed leased farm equipment as a part of the implement retailing business while eight firms had established separate corporations for the purpose of leasing machinery. One dealer had established a corporation for the purpose of leasing machinery, but also leased through his implement business which emphasized equipment sales. He leased through the latter firm when the leasing corporation was short of capital.

Factors Essential to Establishing a Leasing Firm

The individual dealers were asked to rank the three factors they considered most essential to the establishment of a successful farm equipment leasing firm. These rankings were weighted. The weighted responses are indicated in Table 2 which gives the total point value of each factor.

TABLE 2

FACTORS LESSORS BELIEVED TO BE IMPORTANT
IN ESTABLISHING A LEASING FIRM

Factor	Weighted Points[a]
Adequate capital or ample credit	46
Experience in leasing	12
Knowledge of finance methods	11
Product knowledge	10
Assurance of an initial lease volume	9
A good promotion plan	5
Sound knowledge of marketing facts	5
Knowledge of what to stock	2
A very durable product	2
Other	11

[a]Scale is weighted by three for the most important factor; two for the next most important factor and one for the third most important factor as indicated by dealers.

Seventeen of the dealers felt capital was important to setting up a leasing business. Thirteen of these firms indicated that adequate capital was the single most important factor in establishing a leasing business. Adequate capital is defined as enough money available to the dealer to pay the manufacturer for the equipment to be leased and operate the dealer's firm while waiting for the annual lease payments to be paid. Large amounts of capital are necessary if an adequate inventory of equipment to be leased is maintained. The lessor must be prepared to operate three or four years, depending on lease rates, for the leasing business to supply a return large enough to cover his initial investment and provide a profit.

Experience in leasing was the second most important response. Six dealers felt that previous experience is essential to the establishment of a leasing firm. None of these dealers had the prior experience which they felt was essential to a successful leasing operation.

The third most recurring factor cited by dealers was knowledge of the various financing methods available to the dealer. The knowledge of, and the ability to use, the financial tools available to the dealers are essential to his success. Six dealers indicated that this was an important factor in establishing a leasing business.

The major manufacturers of farm equipment offer some financial assistance to the dealers interviewed. (A major manufacturer is a farm equipment manufacturing firm which produces tractors and a full line of auxiliary equipment such as seeding, harvesting, tillage and haying equipment.)

These manufacturers offered two types of financial assistance: (1) the manufacturer would accept the lease as collateral; and (2) the manufacturer requested annual payments which were less than the annual lease payment received by the dealer for the financed equipment. Of the dealers interviewed, twelve were unaware of the existing financial assistance available to them from the manufacturing firm supplying their equipment or did not care to utilize such assistance. Only seven dealers indicated that their supplier of farm equipment provided them with financial assistance.

Extensive familiarity with the implements to be leased, i. e., product knowledge, rated as the fourth factor essential to the establishment of a leasing firm. Two dealers said product knowledge coupled with knowledge of the customer, i. e. his farm size, and the way he took care of machinery, were important aspects of leasing to a farmer.

Assurance of an initial lease volume ranked as the fifth factor a dealer should be aware of before going into the leasing business. One dealer felt that an assured volume was the most important factor in leasing while three felt it was the second most important thing to possess before going into the leasing business. However, none of these four dealers made an attempt to determine what equipment was necessary or how much of it to stock before going into leasing.

In summary, two of the three top ranked factors essential to establishing a leasing business represented factors relating to finance. These factors were adequate capital and knowledge of finance methods. Adequate capital was the single most essential factor to the establishment of a leasing firm.

Equipment Leased and Services Performed by Lessors

Equipment leased

All of the dealers leased tractors and harvest equipment. These farm implements are the most essential to a farmer, but are among the most costly items in his inventory. The demand for these items is usually initiated by the farmer who is faced with increasing capital requirements. The farmer who traditionally values ownership may be looking at his investment in terms of use value and thus invests his money on items which provide a faster rate of return on investment than machinery.

The farmer who is expanding rapidly may not want to tie up a large amount of money in machinery but rather invest in land. Leasing permits the farmer to have modern equipment while at the same time, increases his land holdings, because he can commit less money to machinery investment. Leasing also allows the farmer who is close to retirement to possess modern, efficient machinery without a large capital outlay for machinery which could not bring a resale price when the farmer sold out.

The extensive capital outlay required of the farmer makes leasing an attractive alternative to buying. Furthermore, harvest equipment is used during a relatively short annual time span and may become obsolete quickly as innovations and improvements in harvesting equipment occur rapidly. Sixteen of the dealers leased tillage equipment. Thirteen of the dealers leased seeding equipment. Ten dealers leased haying equipment. Only five dealers of the total leased miscellaneous farm equipment such as spreaders, ground levelers, Bobcat loaders, and other specialized farm equipment. Trucks were the least popular leased item. Only three dealers leased trucks.

The present economic situation, created by high interest rates and many demands for the farmer's capital is favorable to the lessor because it stimulates farmers to demand the lessor's services. If economic conditions should suddenly change, the lessor would have to stimulate the demand.

Product inventory

Eleven of the dealers leased new equipment only, while the remaining eight leased both new and used equipment. No lessor made it a practice to lease only used equipment.

The type of equipment leased is largely determined by the demands placed upon the lessor by the farmer. The dealer stocks the equipment which he feels he can sell in his territory. If the equipment cannot be sold, often the dealer will lease it on the assumption that the equipment can eventually be sold as used equipment, and that the profit from the initial lease and subsequent sale will give an adequate return on his investment.

No one method of determining what equipment to stock as an inventory for leasing purposes was used by all the farm equipment dealers interviewed. Leasing only the equipment in stock was the practice of thirteen dealers. The dealer stocked these items because he felt he could sell them as well as lease them. Six dealers indicated that their equipment to be leased was ordered only on the request of a prospective lessee.

In summary, the implement dealers use leasing as a supplement to sales. The equipment leased was the equipment normally sold in the sales territory. Customers who did not want to spend the money, or assume the debt necessary to purchase the equipment leased the equipment. The individual dealer attempted to increase his share of the market in his sales territory by offering to fill the needs of the farmer by alternate methods. The dealers felt that the leased equipment could be sold later, as used equipment, at a profit.

Length of lease

Twelve of the dealers leased on a short term basis only (less than two years); four leased on a long term basis only, and three offered both long and short term leases. One respondent indicated that he leased equipment to farmers solely on a short term basis because the warranty on the new equipment was restricted to one year and he felt it necessary to have warranty protection during the entire period of the leasing agreement. (Warranty protection in this instance was the guarantee of the manufacturer on the parts and construction of a machine.) If a machine requires repairs during the warranty period, the manufacturer pays the cost of materials and some or all of the labor costs incurred by the dealer unless the machine damage is caused by the operator. This warranty agreement is common to all dealers. It is believed that the length of warranty has some influence upon the lessor's decision to lease on a short term basis. Other factors affecting the length of the lease period are: (1) the needs of the farmer; (2) the useful life of the machine; (3) the salability of the machine as used equipment.

Services performed by lessors

Seventeen dealers offered only a non-maintenance lease to the farmer. This type of lease gives the lessor a minimal responsibility in performing maintenance upon the machinery. The lessor is only responsible for fulfilling the expressed warranty agreements of the manufacturer of the equipment. The lessee assumes all responsibility and costs of keeping the machine in proper working condition. All tune-up work, fuel and oil filters for motor driven equipment, and other routine repairs must be paid for by the lessee.

Reasons given by respondents for offering only the non-maintenance lease were that the leasing firm was not able to perform the function because of a limited staff of mechanics and that farmers did not ask for the full service lease.

Two respondent firms offered a full service lease. A full service lease obligates the lessor to perform all maintenance, including oil change, tune-ups, and lubrication of the leased machinery, as part of the lease agreement. All of the firms required the operator to perform the daily care and maintenance necessary to insure proper performance of the machine.

Seventeen dealers provided their customers with pick-up and delivery of leased equipment. Five of these charged the lessee for this service.

Services given to lessees are essentially the same services given to purchasers except in the instances noted. The full service lease is not being offered by more dealers probably because many lessors do not have a staff of mechanics large enough to perform on-the-farm service operations. In addition, some farmers are quite separated geographically from the lessor, thus making service by the lessor expensive.

Promotion

Advertising

The American Marketing Association defines advertising as "any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor."[1] Ten of the respondent indicated that they advertised that they leased equipment. Direct mail was the most popular advertising medium as nine of the ten dealers who advertised used this medium. Table 3 indicates the media used by advertisers.

Direct mail was used exclusively by three dealers. No other media received this total advertising commitment. Compared to radio, television, magazines and newspapers, direct mail is, in terms of total investment, a relatively low cost method of advertising. Lessors of farm equipment have a limited number of people who are interested in their product. Therefore, the appeal to a large audience, gained by the use of radio, television, magazines and newspapers, does not give the lessor of farm equipment a return on his advertising investment large enough to warrant the

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[1] Marketing Definitions, p. 9.

TABLE 3

NUMBER OF DEALERS AND ADVERTISING MEDIA USAGE

Media	Number of Users	Per cent of all lessors using media[a]	Per cent of advertisers using media[a]
Direct mail	9	47	90
Radio	7	37	70
Newspapers	5	36	50
Telephone Directory	3	16	30
Television	1	5	10

[a]Percentages total over 100% because some firms use more than one media.

additional expense of these media. Direct mail allows the lessor to select exactly who he wishes to receive his advertising. The dealer can develop a mailing list for his advertising by compiling the names of customers who are regular clients, have a good financial rating, or by any other criteria which he feels make the receiver a potential lessor. He may place the names of farmers who are about to retire but need good equipment for a year or two and farmers who are expanding rapidly but have limited capital, on a mailing list to give them special advertising attention.

Radio was the second most popular means of advertising by lessors. Radio is capable of reaching a mass audience and delivering the advertiser's message frequently throughout the day. Radio advertisements can get the attention of the farmer while he is working. No other media can reach the farmer in this manner. Radio allows the advertiser to reach all the farmers in the area. A disadvantage of radio advertising is that the radio's signal may not include all of the sales territory of the lessor.[1] Seven leasing firms used radio as an advertising medium.

Newspapers were the third most popular means of advertising employed by leasing firms. Five firms advertised in newspapers. Newspapers are a good means of reaching a local audience. Newspapers reach nearly everyone in the community but only a few of the readers are potential lessees. Consequently, the cost per reader is relatively high.[2]

Five of the ten lessors who advertised estimated their annual advertising budget for 1968 at $800 or less. Three of the respondents indicated an annual advertising budget of $2, 500 in 1968 while two failed to respond. The dealers did not separate precisely

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[1] John S. Wright and Daniel S. Warner, Advertising, (Second ed. ; New York: McGraw-Hill, Inc., 1966), p. 169.

[2] Ibid., p. 168.

the amount of money they devoted to advertising the leasing business from the amount of money they budgeted for advertising the implement business in general. One firm indicated that a small portion of each piece of direct mail sent to farmers was devoted to promoting the leasing business.

Although lessors were not questioned about their reasons for not advertising, one dealer said, "I don't have to advertise, the PCA and FHA (farm oriented lending institutions) keep sending guys, (i. e. farmers desiring machinery) down here faster than I can handle (i. e. lease to) them."[1] One dealer felt he could be more selective in picking customers if he did not advertise. Several dealers indicated that they did not advertise because their leasing firms were operating at full capacity. These firms had all their available equipment leased and could not obtain more equipment to lease because they did not have the financial resources necessary to obtain more equipment. Other dealers felt that advertising was unnecessary because farmers received sufficient word of mouth information from present lessees.

Publicity also played a role in the promotional policies of those who did not advertise. Publicity is

> Non-personal stimulation of demand for a product, service, or business unit by planting commercially

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[1]Comment of one respondent in the survey of 19 farm equipment lessors.

> significant news about it in a published medium or obtaining favorable presentation of it upon radio, television, or stage that is not paid for by the sponsor.[1]

Leasing has received much favorable publicity in national and regional farm magazines which makes promotion less necessary to the dealer than would otherwise be the case. In effect, the farmer is pre-sold on leasing through the publicity given it and seeks a dealer who has equipment at a favorable rental arrangement.

Five of the lessors who advertised in 1968, based their advertising budget on past sales. The amount spent under this method was determined by multiplying the previous year's sales volume by a percentage figure established by management.[2] The percentage was based on industry averages or what the company had spent in the past for advertising. The major weakness of this method is that little attention is given to the specific needs of the firm. The remaining firms that advertised did not have a fixed method of determining the advertising budget. Management allocated funds to advertising on a spur-of-the-moment basis.

In summary, lessors exert very little effort and money on advertising their leasing business. Publicity and word-of-mouth expressions served as a substitute for advertising.

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[1] Marketing Definitions, p. 19.

[2] John S. Wright and Daniel S. Warner, p. 471.

Personal selling

The Committee on Definitions of the American Marketing Association defines personal selling as "oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales."[1]

Although personal selling is an essential part of the promotional mix of the farm equipment lessor, only five dealers provide sales materials about leasing to their salesmen. No firm employed salesmen who specialized in lease sales. The top executive of most firms handled all lease arrangements. The practice of limiting leases to the top executive increases the firm's ability to select customers carefully and to insure proper care of the equipment and execution of the lease contract.

Table 4 contains a list of leasing advantages communicated customers in the course of sales presentations of the lessors. The table also indicates the number of dealers including each advantage in their sales presentation. The dealers also indicated the advantage which they felt was most important in selling a lease plan to farmers.

The fact that leasing frees the capital of the farmer for other investments was used as a selling point by seventeen dealers.

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[1] Marketing Definitions, p. 18.

TABLE 4

ADVANTAGES OF LEASING CITED IN SALES PRESENTATIONS BY NUMBER OF FIRMS USING

Selling Feature	Number of Dealers Using	Number of Dealers Who Feel it Most Important
Frees capital of farmer	17	12
Tax benefits to farmer	11	5
New equipment annually	5	0
Demonstrates the equipment	3	1
Short term needs of farmer	2	1

Twelve dealers indicated that this was the most important selling point of a lease program.

Eleven dealers cited tax advantages to the farmer as an important selling point of a lease program. The farmer has lower direct taxes and less bookkeeping costs due to lessened tax recording but must indirectly pay the property taxes on the leased machine. The dealer must consider these taxes as part of his costs when determining the lease rate. Federal income tax laws permit the farmer to deduct lease payments from his gross earnings. These payments are considered business expenses.[1] This deduction may place the farmer in lower tax bracket and thus reduce the amount of taxes he must pay.

Five dealers said they felt that it was important to the farmer to receive new equipment annually and based their personal selling on this feature. This advantage to the farmer of leasing equipment can be realized if the equipment to be leased is the type that is functionally or technically obsolete after one year's use.

Three dealers felt that leasing was a way to permit the farmer to use the equipment under various conditions over a period of time without making a large financial commitment. Hopefully, the farmer would find the equipment suitable and purchase a similar machine in the future.

Two of the dealers stated that leasing was a way for them to fill the short term needs of the farmer. This may be a valid selling point to the farmer needing equipment temporarily.

No dealer indicated a marketing strategy to point out hidden cost of ownership or service benefits such as used in industrial leasing.

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[1] Wilson, p. 12.

Pricing

The price of a product or service is a major determinant of the market demand for that product or service. Price affects the lessor's competitive position, the market segment reached, and the volume of equipment that can be leased.

Pricing has considerable bearing on a lessor's gross receipts and profits. The profits a lessor can expect to make depend in part on his skill in pricing. If the lease rates are set too high, the amount of business may not be sufficient to keep the inventory of the firm leased to farmers. If the rates are set too low, the income may not be sufficient to cover the operating costs incurred. The optimum rate a lessor may charge is between these two extremes and will be influenced by operating costs and the business environment in which the lessor operates. Important environmental factors which influence lease rates are the landed costs to the dealer of the implements, competition, and demand for the product or service. Landed costs are the price plus transportation costs which the dealer must pay to acquire the machinery, which, in turn, dictates the amount of money the dealer must get in return for the use of this machinery. Competition exerts restrictions upon the rate a lessor can charge. If the lessor sets his rates too high, the potential lessee will take his business elsewhere. In addition, the degree of demand for the lessor's product and service may influence the lease rates. The lessor may lower the lease rate in an effort to attract more lessess, or he may raise the lease rate in an effort to increase his profit margin.

Eighteen dealers used a fixed percentage of the retail price of equipment to set the leasing price of the equipment. The percentage varied between 20 and 30 per cent of the retail price of the machine. That is, the lessor expected 20 or 30 per cent of the retail price of the machine to be paid to him each year. One-half of these dealers said they considered depreciation, maintenance and service costs, obsolescense and the resalability of the machine as part of the pricing formula used to establish lease rates. Only one of these dealers mentioned that the money market, as reflected in the interest rates he paid, affected the lease rates of his firm. By ignoring the cost of obtaining capital, the lessor endangers the profit margin of the leasing business. This dealer found it necessary to request 27 per cent of the retail price of the machine for the first year lease of the machine. This was a higher percentage than normally given as a lease rate for similar equipment and directly contributed to the high cost of maintaining capital by the lessor.

The remaining nine dealers set their rates at a level comparable to that of competition.

One firm negotiated lease prices with the lessee. In the instance where the dealer negotiated prices, the other farm equipment lessor in town found it impossible to lease profitably because of price cutting competition.

The majority of farm equipment lessors demand a fixed percentage of the cost of machine to them as the annual lease rate. Only one-half of the dealers indicated that they considered costs as a factor in arriving at the percentage used as a lease rate. The remaining dealers set their rates at levels comparable to that of competition.

Leasing Revenue

Dealers were asked to indicate the gross leasing sales category which included their lease volume. The number of firms in each leasing volume category is shown in Table 5, page 37. The lease volume categories were chosen to facilitate the response to the question. The number of years the firm has been in the leasing business is not the sole determinant of the leasing volume as indicated in Table 5.

TABLE 5

DISTRIBUTION OF LESSORS BY REVENUE CATEGORY AND AVERAGE YEARS IN BUSINESS

Sales Category	Number of Dealers	Average Years in Leasing
$0 to 24,999	4	3
25,000 to 49,999	2	4
50,000 to 74,999	2	3
75,000 to 99,999	--	--
100,000 to 149,999	4	6
150,000 to 199,999	3	7
200,000 to 249,999	1	3
No answer	3	--

The revenue from leasing is a measure of the firm's success in leasing farm equipment. Although the lease revenue was a substantial sum in certain instances, it was never the main source of revenue for the firm. However, leasing is becoming an important method of merchandising farm equipment in terms of revenue.

Growth of Leasing

Fifteen dealers stated that their leasing business had been increasing while three dealers stated that leasing had remained at the same volume over the past two years. Only one dealer said leasing was declining. This dealer was in a unique position because competition used price as a negotiable selling factor and he was apparently being undersold. The three dealers who stated that leasing had remained at the same level over the past years also affirmed that their firm chose to hold the leasing volume at this level. Furthermore, these firms indicated they could increase or decrease their leasing volume if management so desired. Data acquired from the leasing firms indicated a growth rate of 16.4 per cent for the year 1966; 17 per cent in 1967; and 18.9 per cent in 1968.

Summary

In summary, eighteen firms have an average of four years of experience leasing. Dealers feel it is most essential to have ample capital or credit before going into the leasing business. New tractors and harvest equipment are the most popular farm machines leased. Short term leasing is more popular than long term leasing.

One-half of the lessors advertise. Direct mail is the most commonly used media of advertising used by farm equipment lessors.

The top executive of most firms handled all lease arrangements. Most dealers indicated that leasing frees the capital of the farmer for other investments in their sales presentations. The lease rates for farm equipment vary between 20 and 30 per cent of the retail price of the machine. The majority of the dealers indicated that their leasing business was increasing and that their firm was operating to their satisfaction.

CHAPTER IV

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The purpose of this thesis is to describe and analyze the marketing practices involved in leasing farm equipment by selected independently owned and operated farm equipment dealers in North Dakota. The data used in this thesis was obtained principally from a survey of North Dakota farm equipment dealers. Nineteen farm equipment dealers were interviewed by the author during the first week of June, 1969.

History of the Farm Equipment Retailing Industry

Farm equipment retailing has its origins in the hardware store of the nineteenth century. During this period the farm equipment purchased by the farmer was of the hand tool and harness variety. The advent of the reaper and steam engine caused the implement dealer to evolve as a separate business.

The first patent for a reaper was granted in 1803, but none were as successful as the reaper of Cyrus McCormick. This machine was the foundation of the firm which later became a leader in the farm equipment industry.

The first portable steam engines designed for agricultural use were manufactured in 1849. Steam power became increasingly popular and dominated the farm power scene from 1885 until 1915, reaching a peak about 1913. The decline of the use of steam power was caused by the introduction of the gasoline tractor.

Retailing Farm Machinery in North Dakota

It is not known who the first farm equipment dealer was or when the first farm equipment retailer was established. The Hudson Bay Fur Company sold mowers and miscellaneous equipment to the settlers of the Red River Valley during the 1860's. This seems to be the first attempt at retailing farm equipment in North Dakota.

Evidence indicates that the early farm equipment dealers were a small, somewhat unreliable, businesses. Accurate records of the actual number of farm equipment retailers during the early years are not available. Evidence indicates that there were at least a hundred dealers in the Red River Valley in 1889. The number of farm equipment dealers increased or decreased in accordance with the fortunes of the farmer and general economic conditions.

The Role of the North Dakota Implement Dealers Association

The North Dakota Implement Dealers Association is a state trade association for farm equipment dealers. The aim of the group is to advance the objectives of farm equipment dealers through group action. The association's objectives were listed as including provisions to protect the retailer from retail sales by the jobbers and manufacturers. Other objectives listed were aimed at ending the policies of price cutting; at establishing more uniform prices and increasing the standing of the implement dealer in his community.

General Information About Lessors

The mean number of years of leasing experience of 18 firms was four years. One-half of the firms had been in the leasing business four years or less. Ten firms had established separate corporations for the purpose of leasing.

The dealers felt that adequate capital or ample credit was the most important factor in establishing a leasing firm. Experience in leasing was rated as the next most important factor in establishing a leasing firm. Two of the top three factors essential to the establishment of a leasing business were related to financing, yet twelve dealers indicated that they were not using the financial help available to them through the major manufacturer of their line of equipment.

Equipment and Services Offered

All of the implement dealers leased tractors and harvest equipment. These implements are the most essential to a farmer but are among the most costly items of his inventory. Sixteen of the dealers also leased tillage equipment. The lessor can lease large ticket items most successfully. The demand to lease this type of equipment is stimulated somewhat by high interest rates and the many demands placed upon the farmers' operating capital. If these economic conditions should suddenly change the lessor may find the demand to lease this equipment diminish.

All of the dealers leased new equipment. Eight of these dealers also leased used equipment. The dealer usually leased the same type of equipment he sells. The majority of the dealers leased on a short term basis only.

Seventeen dealers offered only the non-maintenance lease. This type of lease requires the minimum amount of service from the lessor. The lessor performs the same services for the lessee as he does for sales customers.

Promotion

The most widely used method of advertising by implement dealers was direct mail. Ten of the lessors advertised and nine of these used direct mail. Direct mail allows the advertiser a great deal of selectivity in determining the recipient of his advertising.

Publicity played a part in the promotion of leased equipment. Regional and national farm magazines have given leasing much favorable publicity.

Personal selling is essential to the success of farm equipment retailing firms. Five of the firms gave special instructions to their salesmen on the proper methods of handling lease sales, but no firm employed salesmen to promote leases only. The most frequently indicated selling point employed by lessors was that leasing freed the lessee's capital for other investments.

Pricing

The price of a product or service is a major determinant of the market demand for that product or service. Factors which influence price are: purchase costs, maintenance and service costs, competition, demand for the product and the cost of obtaining capital. The annual lease rate charged by dealers varied between 20 and 30 per cent of the retail cost of the machine.

Growth

Fifteen dealers stated that their leasing business was growing. The growth rate for 1968 was approximately 19 per cent over the previous year's lease volume. The dealers were optimistic about the growth of their leasing business, all felt that they could increase their leasing volume, if they so desired.

Conclusion

Leasing is a relatively new method of merchandising farm equipment in North Dakota. The dealers who participated in a leasing program were apparently satisfied with the results. The ability to finance a leasing business was the greatest problem the dealers faced. The marketing practices employed appear adequate as the firms were operating at a level acceptable to management.

Recommendations

Future marketing practices will have to be altered as leasing becomes more competitive. The farm equipment dealer-lessor must review his marketing practices continually if he wishes to increase his leasing volume and maintain his profit margin.

On the basis of this survey, it is recommended that the firms plan their advertising budgets in advance. They should determine at the beginning of each year how much money they wish to allocate to advertising based on such factors as past sales, present economic conditions and future advertising needs of the firm. More aggressive promotion policies will have to be designed to attract lessees as firms compete for the business of a limited number of lessees.

Salesmen should be trained to negotiate leases, so the managers, who have negotiated most leases, can attend to other managerial duties. A creative selling approach should be used to negotiate leases. This method of selling informs the lessee of the advantages of leasing and explains to the lessee how leases can be designed for his needs. Hidden costs of ownership should be pointed out. The means by which leasing will release working capital in comparison with other methods of financing the machinery must be explained by the salesmen. Reference to price should be withheld from sales presentations as long as possible to avoid the lessee's attempts to reduce lease rates through individual negotiations. Both selling and advertising strategies should be consistent with the goals and capabilities of the firm.

The lessor should expand the variety of leases and services to make leasing desirable to a larger number of farmers. The long term lease stabilizes the leasing income over a greater number of years and reduces the risk of having the lessor's capital invested in equipment which produces income for one year only. Therefore, the long term lease should be stressed. Options to purchase or lease the equipment again may also attract more farmers to leasing.

Lease rates should be set with due consideration of all cost factors. Lessors must continually review their pricing policies to insure long run profitability. The future success of leasing firms will depend on the lessor's ability to successfully institute marketing practices and procedures.

APPENDIX

SURVEY OF FARM EQUIPMENT DEALERS

1. How many years has your company been leasing farm equipment? ______________

2. Do you operate your leasing firm as a part of your implement business or as a separate corporation?

   ____

3. Which of the following types of equipment do you lease?
   ( ) Trucks
   ( ) Tractors
   ( ) Seeding equipment
   ( ) Tillage equipment
   ( ) Harvest equipment
   ( ) Haying equipment
   ( ) Miscellaneous, such as sprayers, spreaders, feed grinders, etc.
   ( ) Other ______________________________

4. How do you determine the machines you should stock for leasing?
   ( ) Wait for customer demand.
   ( ) Survey of the territory.
   ( ) Lease only equipment in stock.
   ( ) Order the equipment and then push it on the market.
   ( ) Stock only specialized equipment such as beet or potato harvestors, etc.
   ( ) Other, (please specify) ____________________
   ____

5. What factors do you consider important in establishing a leasing firm? (Hand respondent card 1) Please give number 1 for the most important factor, number 2 for the next most important factor and number 3 for the third most important factor.
   ( ) A good promotion plan.
   ( ) Knowledge of finance methods.
   ( ) Adequate capital or ample credit.
   ( ) Assurance of an initial lease volume.
   ( ) Knowledge of what to stock.
   ( ) A very durable product.
   ( ) Experience in leasing.
   ( ) Product knowledge.
   ( ) A good location.
   ( ) Sound knowledge of marketing facts such as customer needs, pricing, advertising and personal selling.
   ( ) Other factors. ______________________________
   ____

5. Do you lease new or used equipment or both?
New ________ Used _______ Both _______

7. What types of leasing do you do?
( ) Short term leasing (less than two years)
( ) Long term leasing (two years or more)

8. A. Do you perform maintenance on the equipment as part of the lease contract? Yes ___ No ___

B. (Skip if answer to question 8A is negative) Approximately what percent of your customers request the maintenance lease? ________%

10. Do you pick up and deliver leased equipment? Yes ____ No ___ If so, is there an additional charge for this service/ Yes ____ No ______

11. Is an option to buy included in the lease contract? Yes ____ No ______ If yes, approximately what percent of your customers excercise this option? ______%

12. Do you lease to any industrial users, such as construction firms, or other local businesses? Yes _____ No ______ If so, approximately what percentage of your customers are industrial users? _________%

13. A. Did you advertise last year? Yes____No ____

B. If yes, what percent of your advertising budget did you spend on the following media?

_____% Trade publications such as the Dakota Farmer

_____% Newspapers

_____% Telephone Directory

_____% Radio

_____% Television

_____% Direct Mail

_____% Other (please describe) _______________

____

C. What was the advertising expenditure for the leasing firm last year? ____________

D. Who determines the advertising budget?
Lease manager ___________ Owner ___________
General Manager _________ Other ___________

E. How is the advertising budget determined?
( ) Percentage of past sales.
( ) Percentage of future sales.
( ) Match competition.
( ) No plan
( ) Other (please specify) ____________

____

14. Do you employ salesmen who handle lease sales only?
Yes ________ No ________ How many ________

15. Do your salesmen receive special training in the handling of lease sales? Yes _____ No ______

16. What do you believe is the most important selling point of leasing equipment? . . . . Are there any other selling points employed by your firm?

Most important ________________________________

____

____

Other ____

____

Other ____

____

17. How do you determine the leasing price of your machinery?
( ) Meet competitors' prices.
( ) Negotiate prices with the lessor.
( ) Use a published rate guide such as Rental Rate Guide or Green Guide.
( ) A fixed percentage of the cost of the machine. If so, what percentage? _______ How is percentage arrived at? ________________

____

____

( ) Other (please specify) ________________

____

18. How do you establish lease rates?
( ) Hourly
( ) Daily
( ) Monthly
( ) Seasonly
( ) Annually
( ) By the acre
( ) Other __________________________________

19. Does your implement business grant price concessions to your leasing firm greater than to your regular sales customers? Yes ____ No ________

20. Does your manufacturer offer any financial assistance to your leasing firm? Yes ____No ____ If so, what assistance is given? ____________________________

____

21. In terms of total dollar sales, has the leasing business been increasing, decreasing or remaining the same since you began the program?

____

22. Could you give me the approximate growth rate, stated as a percentage of the previous years' lease sales, for the following years:
1968 _________ 1967 ___________ 1966 __________

23. What percent of your sales last year came from repeat lessees? ______%

24. Please give me the letter on this card, (hand respondent card 2) which indicates your leasing sales volume last year. ____________________________

25. How is the equipment disposed of after the end of its leasing life?
( ) Auction
( ) Sold to the farm equipment business.
( ) Sold to the public by the leasing firm.
( ) Other (please indicate) __________________

____

Name of firm ____

Name of Respondent ____

City ______________________________Date __________________

Phone Number ____

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