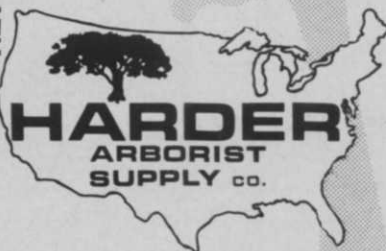


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The Fallacy of Corporate Costs

ONE of our readers, a contract applicator for railways and utilities, was complaining recently that some of his potential customers (particularly railways) do not take all cost factors into consideration when deciding whether or not to have weed and brush control performed by contractors, or by a company-employed crew.

"Many times," our correspondent elaborated, "a railway maintenance-of-way official will look at the quote which contractors supply (a quote that constitutes the *total* costs of the operation), only to compare this figure with how much the chemicals cost if the railway does the work.

Obviously this will form the basis for an unrealistic comparison. Even if the cost of paying crewmen their hourly wages is added, the comparison is still inaccurate. Why?

When a contractor offers to perform weed and brush control for a fixed rate per mile (or acre, or however he computes the task), the cost includes (1) expenditures for chemicals; (2) expense of labor; (3) depreciation of equipment; (4) costs incurred when re-treatment is necessary. This last facet is particularly important, since most CAs guarantee their work.

If a rights-of-way maintenance supervisor is to compare costs intelligently, he must take these same factors into consideration when computing how much it will cost him to do the job himself. This means the cost of paying (and *training*) the crew including the times workmen are kept around when they may not be really needed, must be incorporated. Add to this the dollars spent for chemicals, the amount needed to cover use of equipment, and the "repeat" factor. The "repeat" possibility since the job, if it goes wrong, is now the responsibility of the company, not a contractor, so the cost of re-treating is therefore borne by the company performing its own work.

We've written before about the complexities of cost accounting, but this aspect is particularly intricate. While we're not trying to convince railways or utilities (or anybody else) that they should or should not hire a contractor, we do advocate, in the interest of good business management, that all cost factors be considered when one is trying to decide which weed and brush control program to choose: the self-performed job, or the contracted one. These decisions frequently involve a great deal of money, so the fallacy of corporate costs, the failure to consider all expenses which may be a part of the vegetation control program, can result in ill-advised decisions, and perhaps in a loss of money. In an age of profit-presures, it becomes doubly important for management to be fully aware of all the costs.

In the event a company is unfamiliar with how such costs can be accurately determined, or if a supervisor is unsure about the possibilities of job failures, we're certain reputable contractors, as well as chemical suppliers, will be happy to help in the judgement of possible influences on costs which are likely to arise in a particular job.