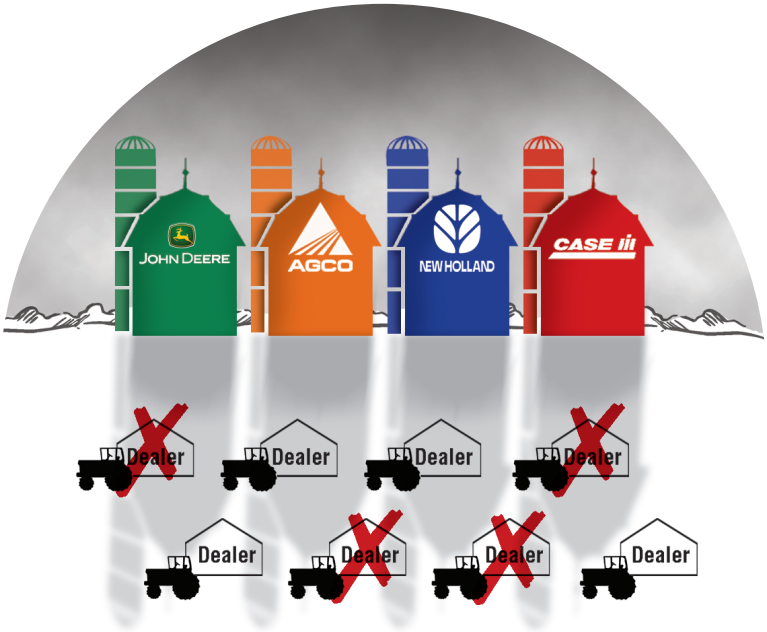
How the 'Big Four' are Dealing with Dealer Issues



From consolidation to equipment 'purification' to succession policies, manufacturer-dealer issues are high on the list of industry concerns.

A Farm Equipment Staff Report

You would be hard pressed to find a farm equipment dealer these days who doesn't have his hands full dealing with the normal, day-to-day challenges of running a successful business. But the unique issues confronting many dealers today can go beyond the straight-forward demands of increasingly keen competition and making some money.

Ag dealers today find themselves in an odd situation. Despite being the biggest "customers" of the "Big Four" farm machinery makers — AGCO, Case IH, John Deere and New Holland — many dealerships find they are also at their whim. As the "Big Four" study their long-term strategies for product distribution, their plans don't necessarily call for a dealer on every corner of every farm town. With this new thinking about effective product distribition, some dealers are left wondering where their futures lie.

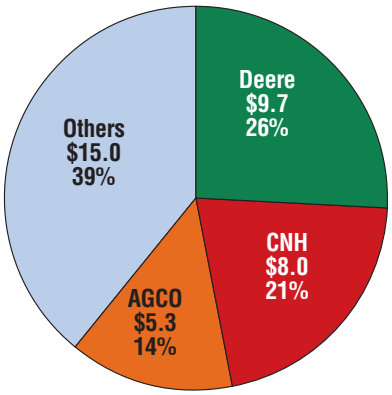
When *Farm Equipment* conducted its 1st Annual Dealer Business Trends Survey this past fall, more than 340 dealers from the U.S. and Canada responded. In addition to identifying the major business trends in the ag equipment industry today, the survey was also designed to focus on the significant "concerns" of North American dealers.

Not surprisingly, the rising cost of energy and health care insurance headed the list. This was followed by the shortage of skilled technicians and the shrinking farm customer base.

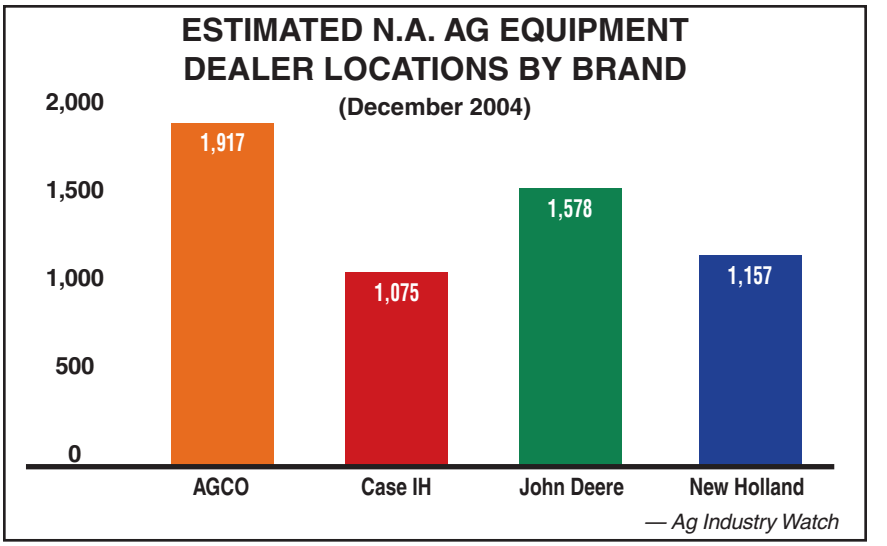
Also high on the industry's "Issues and Concerns for 2006" were direct manufacturer-dealer issues, including:

- **Dealership "Purity" Efforts:** pressure from the major manufacturers for dealers to carry only implements and other equipment produced by the major.
- **Industry Consolidation:** reduc-

ESTIMATED AG EQUIPMENT SALES BY MANUFACTURER
(Billions $)



Foresight Research Solutions, LLC



tion in the number of dealers to streamline distribution channels.

- **Succession Policies:** contract approvals by the manufacturers — all of whom wish to reduce their total dealer numbers — making it difficult or impossible to transfer ownership of a dealership to family members or other interested parties.

To get a better handle on the positions of each of the "Big Four" full-line farm equipment manufacturers, the editors of *Farm Equipment* met individually with top executives responsible for dealer networks from AGCO, Case IH, John Deere and New Holland to discuss these dealer concerns.

None would offer a specific number of dealer operations that they are aiming for, but all acknowledge that the overall number of dealers will be diminished over time.

The majors also make no secret of their desire for their dealers to carry most, if not the complete line, of equipment they manufacture. All would prefer that their dealers not carry "too much" in the way of shortline equipment, nor spend their time, effort and financial resources on equipment outside their color.

On the subject of succession planning and policies, the consensus seems to be that in many cases, an honest and open dialogue between manufacturers and dealerships can allay many of the fears that dealers have regarding the fair transfer of their franchise licenses.

The following "Special Report" was put together to give *Farm Equipment* readers the manufacturer's perspective on these and other issues confronting ag machinery dealers.

AGCO's Dealer Network Heading for 'Somewhere in Between'

By Dave Kanicki, Managing Editor

On its website, AGCO Corp., sometimes called the "teenager" of the big four ag equipment makers, boasts "approximately 3,900 independent dealers and distributors around the world." What it doesn't say is that about half or more of its dealers are located in the U.S. and Canada alone.

So, between 50 American states and 13 Canadian provinces the company averages about 30 dealers each, not to mention all of the other "colored" stores in the same locations. It can be difficult finding 30 McDonald's franchises in some of the largest farm states.

So, why so many dealers?

Most industry observers, including AGCO management, agree that it doesn't. This is a company borne of acquisitions, each designed to complement the others. Today it offers a complete line of farm equipment and it knows it's time to take a hard look at how that equipment is sold and serviced.

"From our end of it, a lot will have to do with dealers making their own choices whether they go forward or not."

— Jim Walker, Vice President & GM North America, AGCO

An Evolving Entity

While the history of some of AGCO's brands date back to the mid-1800s, as a corporate entity, the Duluth, Ga.-based AGCO is a mere decade and a half old. Since it was founded with the purchase of Deutz Allis Corp. in 1990, it has grown through some 20 acquisitions — from Challenger to Fendt, Massey Ferguson to Gleaner, Hesston to Sunflower — and by 2005, AGCO's sales reached an estimated $5.4 billion.

With each brand acquisition, came another network of dealers. It is no wonder that AGCO's distribution network appears too large and awkward to manage effectively. The company doesn't hide the fact that its distribution network needs streamlining and reiterates it immediate goal, which is "to focus on strategies and actions to improve our current distribution network."

In other words, AGCO's distribution network is a work in progress and, according to Jim Walker, vice president and general manager of AGCO North America, a concentrated focus on product distribution represents the next stage in the young equipment makers maturation process.

Balancing a 'Relationship' Business

Ag equipment manufacturers and dealers alike agree that selling ag equipment is a "relationship" business. "Much more so than buying a car or other products," says Walker. "From a farmer's perspective, he would love to have his equipment dealer right next door to him or within a reasonable distance when he needs parts or service."

At the other end of things is the equipment manufacturer for whom each point of distribution is an additional cost. "Anyway you look at it, whether you're talking about providing product floor planning or technical support for the dealers, it's a cost for the manufacturer. With very slim margins, it becomes a balancing act. The manufacturer would like to go to fewer locations but still provide the services to support the farmer. We certainly have a costly distribution system in place right now."

When the Caterpillar construction equipment model of "one central location/dealer and mobile dispatched technicians" is suggested as a possible alternative to the traditional "many small stores" structure of the ag equipment network, Walker isn't convinced that it will work as well in the farm equipment business.

"Maybe somewhere in between where we are now and where the Cat model is going is probably a logical answer. We're never going to be able to go to 3 or 4 dealers per state or something like that," says Walker.

> "We are not actively encouraging our larger dealers to buy out the smaller ones."

A Place for Both?

AGCO, of course, knows the Caterpillar distribution model well considering its relationship with Cat, the largest construction equipment maker in the world, through the Challenger brand of farm machinery.

Challenger is the 3-year old arrangement between AGCO and Caterpillar in which AGCO provides a full line of private-branded products — from tractors to combines, to hay tools and other implements — for sale through Cat construction equipment dealers who want to diversify into the ag market.

As a result, Agco is dealing with two distinct, and as Walker calls them, "complementary" distribution channels for its range of equipment.

"Part of our business is the Challenger brand of farm equipment," explains Walker. "This is a farm equipment organization that has adapted to using the 'Cat' model where service people are located in the field, away from the dealership, and travel to customers within their region to service and support Challenger products. This practice has proven to be very cost effective. "

"The other advantage is that it brings the service rep or service tech closer to the customer. So far, this has been a very positive aspect of our Challenger distribution system."

While Challenger appears to be setting the tone for the future of farm equipment distribution, the model for selling and servicing the AGCO brands has not varied from the decades-old ag equipment model that relies on stores scattered throughout the countryside. And this isn't all bad either, according to Walker.

From his point of view, there are enough cultural and demographic differences between the ag and construction equipment markets that the new distribution model will not work as effectively for the farming community as it appears to work for CE.

"We feel that to effectively service the ag equipment market you need to be more closely involved in the community; to have a physical presence. Challenger probably can't do it as thinly spread out as the construction business is set up today.

"From experience we know that you have to physically engage the ag marketplace. How we do this is going to be a variation of the model that we have right now, but we won't have all the dealers we [AGCO] have today. Again, I think it will end up somewhere in the middle."

Melding Distribution Resources

The individual strengths of the two major AGCO brands is an interesting mix. What the traditional AGCO dealerships bring to the table is their personal contact with the

local farming community along with their market saturation.

Challenger, on the other hand, with its connection to the Caterpillar dealer network, has the capital resources and long-established asset of the Caterpillar reputation to work with.

"With those capital resources and the ability to invest in distribution, together with the standing of the Cat dealer network, Challenger brings another dimension to our distribution channels. But Challenger is just now scratching the surface of what it takes to be in the ag business," says Walker.

"Whereas on our side of the business, where you have the traditional AGCO distribution system that is made up of the many acquisitions we've made in the past 15 years, we need to consolidate the various distribution channels that exist now.

"Ultimately this will mean fewer overall dealers that are more volume oriented and more stable so as to complement the Challenger business.

"There's a place for both of us," Walker adds. "One has the capital capability. The other has the established relationship with the farm community and the range of individual products from all of the acquisitions we've made.

"Our goal is use the best of both of these to service the entire farm market."

Parts and Service

Despite the perception that having a dealership next door or nearby automatically translates into improved service and better parts availability, this isn't always the case in the real world of the ag equipment dealer.

Operating on slim margins, many dealers, particularly the smaller ones, maintain minimal inventories of spares and repair parts.

"This has become inherent in many distribution systems today," says Walker. "The lack of parts availability at a dealerships is a function of controlling the cost of overhead and rightfully so when you consider the dollars tied up and sitting idle in the back room."

From his perspective, fewer yet higher-volume dealers will actually improve the parts distribution and availability situation. "What's happening here is because of the slim margins, dealers are stocking fewer and fewer parts because of the capital cost involved.

"So if you can get a little larger dealer covering more market area, then he's probably in a better position in terms of available capital to cover the overhead involved with stocking more parts and providing better service. Fewer but larger dealerships will actually help improve the whole situation."

Consolidating the Dealer Network

It is no secret that the AGCO needs to streamline its dealer base. With each of the nearly 20 acquisitions during the past 15 years, its distribution channels were modified to assimilate the menagerie of product lines that today make up AGCO Corp.

How the equipment maker shrinks its North American distribution network remains the question.

"We have no intention whatsoever of running off the existing AGCO dealers we have now," says Walker. "From our end of it, a lot will have to do with dealers making their own choices whether they go forward or not.

"Certainly with franchise laws and usury protection laws, dealers are protected pretty well. But many of the dealers who came along with the products we've acquired are dealers who, on their own, will exit the marketplace. Our long-term focus is on dealers we know can go forward with us, and who can pick up all of our product lines."

Walker insists that "We are not actively encouraging our larger dealers to buy out the smaller ones. From the AGCO North America end of it, we necessarily want to build volume at the dealerships that will be around for the long term.

"Two ways will increase the volume at our dealerships. The first is natural attrition. As the smaller ones go out, those around them will pick up the lines. The second one is giving the surviving dealers as many of the product lines that we have that don't have like-brands distribution in their area. But where they're all together in the same are, we will have wait for attrition to do that."

Distribution Strategies

In light of the shifting demographics of agribusiness in North America, AGCO looks at having both the AGCO and Challenger brands as presenting a significant advantage in the marketplace.

Whereas AGCO finds its core strengths in serving the smaller, medium-sized and "smaller" large farm operations, Challenger is well positioned to take on the equipment, service and technology needs of the growing number of very large row-crop farms of the Midwest and Plains states.

> "In the long term, our growth will come from challenging the competition by solidifying a fewer number of individual dealers and helping them grow their volumes."

As Walker sees it, this gives AGCO the product variety it needs to work through the inevitable economic cycles of the agribusiness world.

"Right now, we're trying to focus on giving the long-term dealers as many of the products that we can to give us coverage of the entire market," Walker explains. "We are also focusing on trying to build what we call our 'two cornerstones of familiarity' in the marketplace.

"We want all of our long-term dealers to carry either the Massey tractor line or the AGCO tractor line because when you look at the other full-line manufacturers, they really start with a combine and a tractor — that's the cornerstone of the business.

"So we want to make sure that our dealers at least carry a combine, whether it is a Gleaner or a Massey, and that they have either the Massey or AGCO tractor. This forms the foundation for adding all of our other product lines in a natural fashion."

Longer-Term Trends

Many of the the longer-term trends that will shape ag equipment business are already underway. Fewer, but larger farms and the growing number of large property owners or hobby farmers, are two distinct trends that all farm machinery producers are watching. But while looking at these longer-term trends, Walker isn't losing sight of what is available to AGCO today.

"There is still a tremendous volume of business in the beef and dairy sectors that will eat up a lot of machinery in terms of sheer volume. So while we see some softening with row-crop type commodities and equipment, we still see some very strong markets in '06 and beyond."

On the other hand, you probably won't see AGCO brand products at the far reaches of the ag equipment business.

In other words, don't look for them to go after the lawn and garden business, and it's the Challenger line of equipment that will earn for AGCO's share of the really large equipment.

"We aren't looking to dabble in the consumer products end of things. There's a high cost of entry into that business. The start-up costs are huge to try to reach those consumers who live just outside of the metropolitan areas and who are looking for lawn and garden products. And I don't see us going in that direction," says Walker.

"What I see us doing is turning the hourglass upside down and saying 'OK, if you take the part of the farm sector that involves the people who are moving out and buying more acreage, and need a 50 or 60 hp tractor, we can deal in that kind of business. That's still a large number of tractors and implements.

"I see us dealing with the sundowner who isn't quite at the farthest side of the ag sector, and also concentrating on the mid- and large -sized farms. We are well positioned to service this entire range of farm operations."

When it comes to the behemoth farming operations where "the bigger is best" and cutting-edge technology is a given, this is where the AGCO-Caterpillar alliance steps up.

According to Walker, "It's a difficult business when you look at the large farm operations that everyone is talking about. Some of our competitors are pretty entrenched there.

"There's a lot of technology, a lot of support services, and we'll be going in that direction, somewhat, but we're shooting for somewhere below the very high technology and high support end of the largest farm operations.

"Challenger, on the other hand, has that capability to deal with the high-tech farmers. I think this is certainly a focus of their market drive," says Walker.

"So, as a corporation, our overall thrust is to deal with the entire farm base, that's why I think we — AGCO and Challenger — have complementary product lines and distribution systems."

Growing in a Stable Market

For the most part, AGCO doesn't anticipate the size of the overall farm market to grow dramatically in the next few years.

"You can't really look out any further than the next 2 or 3 years because so much of it is driven by outside competition," Walker says.

So, how does a company like AGCO grow in a stable market?

"By taking away business," he says. "There's nothing else you can do," he says.

"In the past, as part of our operation, it was the acquisition of companies and taking these various components and utilizing economies of scale and combining those to reduce overhead. This is how the company has gained profitability, growth and revenue.

"Looking forward, it has to be technology driven. What we're looking at again is trying to reduce overhead as much as possible, free up cash and, instead of buying companies, it is to aggressively invest in research and development.

"We really started seeing this starting in 2004. We've increased our R&D budgets more in the last 2 years than we did in the first 14 years.

"I'm not saying we're not going to acquire more business, but it won't be AGCO's principal model for future growth.

"For the first 15 years that was certainly how we got here, but now we've reached a point where in order to continue participating in the industry, we have to concentrate on our distribution system.

"We've picked up a lot of product and a lot of sales growth through the existing distribution systems that we've acquired along the way, but we know many of those aren't for the long term. Not the way this industry is going.

"So we're looking more toward streamlining all of our distribution channels," says Walker.

"In the long term, our growth will come from challenging the competi-

tion by solidifying a fewer number of individual dealers and helping them grow their volumes."

The Dealer is Key

In summing up the current and ongoing focus of the company, to Walker, the strategy is pretty straightforward.

"Challenger is aggressively trying to expand its business and the AGCO brand is focusing on consolidating our distribution network into higher volume dealers.

"Since AGCO was founded, we've grown the business every year. In fact, our business has outpaced the market and we're gaining marketshare and it's working for us. So I think we're going in the right direction."

Walker is quick to admit that despite the ungainly size of his dealer network, the dealers have and will continue to be the focus of AGCO's growth strategy.

"We've done it with strong dealers. I don't think it will ever change.

"I look at our dealers as our partners. We're in this together. The dealer is the primary interface with the customer. In our distribution system, he is AGCO — he is Challenger.

"As the manufacturer, our role is to make our customer the farmer as profitable as possible so he will be there long term.

"We need to offer products and services that will make the farmer more profitable, whether it's through advanced technology or lower cost of ownership.

"The dealer is right in the middle of the whole process. We can't do business without our dealers."

Case IH's Frank Anglin Brings Analytical Approach to Dealer Management

By Mike Lessiter, Editor/Publisher

Of all the executives interviewed for this special *Farm Equipment* feature article, Frank Anglin III, vice president, Case IH North American Agricultural Business, has been in the chair for the shortest tenure. Just one year ago, the 43-year-old Anglin arrived from a similar position of authority for CNH's ag business in Australia, New Zealand and Oceania and succeeded 40-year industry icon Jim Irwin. Anglin joined the firm in 1996 as vice president of operations for Case IH Credit and subsequently held senior management positions with Case IH Credit and CNH Capital.

Some observations on Anglin include a youthful energy, fast responsiveness (he prepared a PowerPoint presentation at midnight following a casual dialog among news editors at a cocktail reception during a dealer meeting last winter) and a confident admission that he doesn't possess all the answers. In fact, as a newcomer to the ag dealer networks in the states, he doesn't carry historical baggage or longheld dealer relationships with him, which causes him to be out in the field more in a heavy listening role at this point in his tenure.

The interview for this article was held within days of the news of the CNH reorganization around brands. "We removed a layer of management," he says, noting that dealers will not feel material changes. "It should result in faster decisionmaking, particularly with marketing programs. We'll still have some shared resources between the brands where it makes sense, like precision farming, but the net change should be positive for the dealers and their customers."

Despite Anglin's easing of concerns, any announcement involving Case IH still brings about some anxiety pangs, as dealers and others wonder when the next shoe is going

"We will be very analytical when dealing with locations that are underperforming."

— Frank Anglin III, Vice President
North American Agricultural Business, Case IH

to drop. Anglin says, "You've got to remember that we doubled our sales from 2000 to 2005. And the short-term goal is an increase of another 25%."

According to Anglin, today's Case IH network consists of 674 owners operating a total of 1055 different locations. As much talk as there is about Darwinism at play in farm equipment dealer organizations of every color today, Anglin foresees only modest change for Case IH dealerships over the next 5 years.

"In fact, considering the under 40 hp sector in metro markets, we could see a small increase in the number of outlets." Over the next 3-5 years, Anglin expects a 10-15% contraction in the number of dealership owners, but with a lesser decline in the number of outlets, probably slighly below the 1,000-site mark. "We'll continue to have strong outlet coverage."

While consolidation offers obvious economies to the manufacturer, Anglin points to some efficiencies that multi-store owners will realize through the consolidation. "There's too much inventory spread around, too many one-sies and two-sies. When an owner has multiple sites, it's easier to move that inventory around."

Reddish-Blue Dealers?

An obvious next question is the future of Case IH and New Holland, and whether a tug-of-war will emerge should the dual dealership trend be "encouraged."

The pain of the Case and IH merger in 1985 left some hard lessons learned, and the Case IH and New Holland merger in 1999 brought a different approach. "We all realized what happened with the Case and IH merger and the impact that it had on the dealers," says Anglin. "The result was not X+Y; it was something less than that.

"The reason is the brand and the dealer. When you close a dealership, that's a critical component that can result in lost market share. With the Case IH-New Holland merger, we've managed and supported both networks. Today, we have 192 dual dealers, vs. 194 in 2002, so there hasn't been any strong movement during that time.

> "Once we're where we need to be, and we are improving rapidly, we can take a more forceful stance with dealers."

"Our strategy continues to maintain separate distribution channels, but as dealers gain critical mass and economies of scale, we're open to opportunistic, market-by-market assessments to figure out if it makes sense to promote both brands. But it must be for the right reasons: a passion vs. acting so that someone else doesn't get the territory."

The R.G. Mazer Group in Manitoba is one example he shared of the right kind of dual dealership. Mazer purchased the New Holland and Case IH dealerships in Portage and LaPrairie, Manitoba. Dual dealerships are an opportunity that he expects some dealers to pursue, though gradually.

Conversely, Anglin says Case IH will take a tougher stance on underperforming, dual dealers. But according to Anglin, the net impact is that the number of dual dealers will remain about the same in the short-term.

Navigating Contraction & Consolidation

As far as the consolidation process goes, Case IH intends to play an active role. Anglin says, however, that his office's process will be different moving forward.

"We will be very analytical when dealing with locations that are underperforming," he says, referencing a page from the 2004 Case IH Dealer Review Book. "Part of it is using the right tools."

Another area is additional dealer management. "We've also increased our focus in the field operations. We're encouraging our Case IH Business Managers (CBMs) to think about the dealer footprint, reviewing all issues and constantly following up. We're also training our entire field organization to be more astute and helpful in the dealership mergers and acquisitions process."

According to Anglin, the 65 CBMs have been challenged to "make one material change in their area in 2005." This could mean filling an open market point, putting an underperforming dealer on cure, determining if a location should be a parts center only, or identifying and facilitating a dealership acquisition.

Facilitating Dealership Mergers

"When you digest a dealer's financial statements, it's difficult to determine the fair purchase price and how much should be paid in goodwill," says Anglin. "We are coming

Direct Sales Assistance for Targeted Segments

Anglin insists that he is committed to the dealer structure. "Any activity will go through the dealer network," he says. That said, Case IH has added staff resources for some targeted agriculture accounts, including government business, which he says represents less than 5% of Case IH's total business. "That's a real opportunity to grow," he says. "There are also a lot of large customers across state lines, some who might want one corporate contact rather than working with as many as 6-10 dealers."

Another opportunity he sees is with targeted groups that Case IH has yet to penetrate, such as the Mormon church. Corporate-level attention can help with such relationships, says Anglin, cracking doors that would otherwise not have been opened for the local dealer.

up with recommendations to help dealers in such evaluations, as required. A disconnect may exist now between the seller and the buyer, but we will be smarter in terms of valuations.

"The resolution, occasionally, may cost some dollars. Some dealers may want to expand, but don't have the liquidity to do it properly. Sometimes additional resources are needed to bridge a gap. If the acquiring dealer will commit to the critical targets, including market share, we may be willing to contribute, to extend a loan to bridge the gap, contingent on market share performance."

While multi-generational family dealerships continue to fret over the contract approval process, Anglin believes it's less of a problem at Case IH than at other manufacturers. "We have a high degree of confidence in the dealer network to choose the right partner in the dealer transition process," he says.

Instead, the problem has not been the approval itself, but the responsiveness with the application process. "Sometimes the cart has gotten in front of the horse. The CBMs should own the market and manage the process. This, finding the solution, is going to be front of mind with the CBMs."

How Big is Too Big?

Too much geography is not the right answer either, from both the customer and the corporate perspective. "The farm customer needs to know the dealer-principal, or that store manager that's empowered to make decisions," says Anglin. "If he doesn't, that can be a sure symptom of a dealership that expanded too much."

When asked how big he would let a dealership get, Anglin says that the rule of thumb is not to let any single organization exceed 10% of Case IH's revenue. "How much leverage do we want to let someone have over us?"

A question that some dealers have begun to hear asked by Anglin is "Do you share my enthusiasm for the Case IH brand?"

Competitive Lines...A Question of Brand Passion

Dealership purity (or the majors' push-back efforts when it comes to dealers carrying competitive lines) efforts register high on the list of concerns of all farm equipment dealerships. And while the concern is least among Case IH dealers among all the manufacturers (according to the recently completed *Farm Equipment's* 2006 Dealer Business Trends Survey), the amount of time, energy and effort Case IH dealers spend on non-red colored equipment remains a present debate in Racine, Wis.

In the past, Anglin admits that Case IH didn't always have the product offering to fill the unique customer need, opening the door for the Kubotas and McCormicks. "Now, with Farmall, which was up 40% in 2004-05, we do," he says. "With pricing and technology, we have a compelling reason for our dealers to make that switch back to the Case IH brand. Rather than setting forth an edict, I like to think we're earning that business back."

"We've had a series of discussions with our dealers on determining the true cost of another line. It's a fact-based, quantifiable view of 30 different data points. The rationale is that multiple lines impact the dealership's opportunity cost, training, wholegoods and service.

"We built a model that shows dealers what is involved in taking on other lines. Essentially, we say, 'Let's do the math and see what it looks like.' This is skill-building program for our CBMs, equipping them to help dealers make the right decisions."

When asked for his view on dealers and the shortlines they carry, Anglin reiterates that Case IH's improvement will do the talking when it comes to getting a bigger share of the dealer's business. He cited improvements from past problems in parts availability (an issue he said Case IH struggled with but has since overcome); answering phones fast enough ("we now get 97% of the calls answered within a timely manner"), and supply chain issues ("we have lowered lead-times on the previously problematic units by months"). "We also achieved significant improvement in MXM quality and reliability. We continue to address quality and reliability in all areas of the business," says Anglin.

Farm Equipment's 2006 Dealer Business Trends Survey showed that Case IH dealers possessed the biggest

Profitability Tide Must Be Raised for Certain Case IH Ships

"The main challenge is for dealer profitability to grow," says Anglin. While the Case IH balance sheets have remained stable for the past several years, and dealers have a solid equity position at 27.2%, Anglin wants to see better a better profitability position moving forward. "We must make sure that our dealer statements as a whole begin to look more like those that fall in our high-performing group."

For instance, Anglin notes that the average Case IH dealer increased sales by 17.6% in 2004 (compared to 17.9% increase for high-performing dealers), but the high-performing group had more than twice the pretax income. The high-performing group took full advantage of this growth by maintaining good control over their margins and, compared to the average dealer, achieved higher gross margins in the wholegoods, parts and service departments. They also did a very good job of managing operating expenses at 1.5% below the average dealer, says Anglin, which helped them maintain a pretax income level of 2.6% of sales.

concerns among all manufacturers when it came to product reliability.

"Once we're where we need to be, and we are improving rapidly, we can take a more forceful stance with dealers."

A question that some dealers have begun to hear asked by Anglin is "Do you share my enthusiasm for the Case IH brand?" "If they don't, we'll both have to make some choices and maybe do something different."

A New Era

Anglin has instituted new communication tools, and uses them on a regular, higher-frequency basis to make sure that he has the pulse of the dealer network and that they also know what's happening in Racine. These include dealer satisfaction surveys (he polls one-third of his dealer universe every 4 months), a dealer advisory board that convenes via teleconference monthly, and teleconference Case IH updates open to the entire dealer network.

"Jim Irwin was known to be a strong dealer advocate," says Claudia Garber, CNH director of strategic marketing, of Anglin's predecessor, who retired after 40 years last year. "With Frank, there's a difference in style and approach, but the end game is the same. Both know that you must take care of the dealer to take care of the customer."

"Jim knew and grew up with all these dealers. He knew the business inside and out," says Anglin. "It wasn't as necessary for him to visit as much as I'm trying to do now to build relationships." As a result, there are now fewer preconceived notions, more of a clean slate approach to trying new things or revisiting things that were attempted previously in a different time, with different people.

One thing that Anglin insists on is that he and his team evaluate business issues at the local market level, a case-by-case level, and do not make "sweeping decisions."

Setting Sights on the Competition

Anglin insists that he's proud of the dealer network. When asked of the dealer behaviors that he most wants to see changed, his answer would be characterized as seeking more evolutionary than revolutionary change. Absorptions rates could be far better, he says, noting that that they are in the 60% range company wide (vs. the aggressive target of 100%). Higher absorption rates, he reiterates, provide dealers with more flexibility regarding wholegoods.

"Value-added selling is another opportunity of low-hanging fruit, and one that we will continue to talk about." He cited a good example of progressive thinking with Titan Machinery (see Is Titan Machinery Reshaping the Future of Ag Dealerships?, October/November 2005 issue), and how it has partnered with competing dealers to provide RTK GPS service at a minimal cost to the farmer.

"Now that we have gotten our house in better order, we want more aggressive targeting of competitive customers. We've shown we've improved ourselves as a supplier, and now can be far more aggressive. I'm talking about making multiple sales calls, knocking on the farmer's doors many more times throughout the year. This involves proactive annual planning — identifying a number of targeted customers and calling on them several times to have the results that we need by the end of the year."

Dealer Expansion/Consolidation Issues

In helping his CBMs understand the issues involved with dealer expansion and consolidation, Anglin has highlighted the following for them to keep in mind.

- Performing dealers who want to expand may not have sufficient working capital or the people to expand.
- History shows that success is not guaranteed
- When expansion fails, it creates a bigger impact to the business vs. a single-store failure.
- Expanding too soon may stretch a strong dealer to the point of failure.
- Aggressive management at the top and at each individual store must be in place for success.
- Economies of scale may not be effectively realized with the first expansion.
- Some are not willing or able to expand — generation of dealer-principals who do not want to risk what they have developed over time.

Ag Industry Keeps Close Eye on Deere Distribution Moves

By Dave Kanicki, Managing Editor

Not everyone in the farm equipment community would say they follow the leader when it comes to John Deere. But few will deny that it's part of their strategy to watch the leader.

Shortly after Deere releases its quarterly earnings recently, dozens of "breaking news" reports immediately flood the Internet news sites and wire services.

For many market analyst and ag industry observers, Deere is the news.

When Deere announced in 2003 that it would begin selling lawn and garden tractors through box stores like Home Depot and Lowe's, it sent shockwaves throughout its dealer network — and all other dealer organizations for that matter.

The perceived implication, of course, was that the ag equipment giant was bypassing its dealers. Was this the start of a bigger trend in realigning its distribution channels?

Other issues also surround Deere and its dealers. The matter of so-called "dealer purification" has also arisen as a concern.

Some Deere dealers report getting pressured to carry only John Deere equipment and to drop other shortline brands — through direct and not-so-direct means.

This coupled with contract approval concerns, is keeping many dealers anxious these days.

This angst has carried over to other ag equipment manufacturers and their dealers as well.

Dealer Distribution

John Lagemann, John Deere vice president of sales for the U.S. and Canada, doesn't disagree that there is movement underway to further streamline the company's distribution network.

But he emphasizes that servicing Deere customers remains its primary goal.

"There's one point that I want to make as we talk about dealer consolidation," he says. "Our number of dealer locations has stayed about the same. Customer touch points have remained pretty consistent.

"What we will do is to match the channel to customer requirements. It is not anything that we intend to drive artificially. We will continue to observe our customers and trends.

"This all leads back to the competitive forces worldwide. Competition is a good thing. It drives cost efficiency and cost effectiveness. As a result, commercial ag producers continue to consolidate."

For Lagemann, dealer consolidation, "in order to take advantage of economies of scale," shouldn't surprise anyone involved in the ag equipment business.

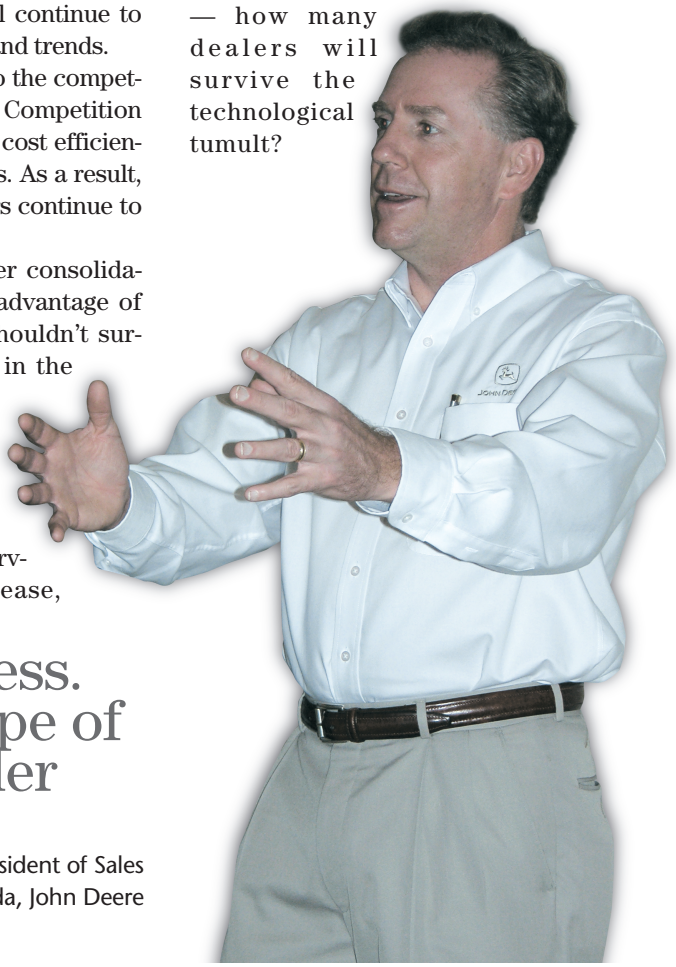
"As farms consolidate and become larger, customers become more demanding.

"As their level of service requirements increase, the need for specialization continues to increase.

"Specialization on the part of the dealer organization is becoming imperative as equipment evolves with integrated technology. This is requiring more staff, with special expertise, to keep the equipment in the field.

"This is driving the need for the dealer organization that has more capacity, more scale and more capability to service the customer base. Our aim is to stay in synch with our customers."

The thinking goes that as the demands for developing and maintaining an increasingly technical savvy staff increase, the pressure on equipment dealers will build to possess the resources to keep up. Naturally, those without the resources will exit the market. This leads to the logical question — how many dealers will survive the technological tumult?



"This is a relationship business. I don't see us going to the type of organization where one dealer covers several states."

— John Lagemann, Vice President of Sales U.S. and Canada, John Deere

"We don't have a specific number of total dealerships in mind," say Lagemann. "It will depend on the needs of the individual trade areas. At the end of the day, we realize that we have real people owning real businesses. So you need to deal with those real people and real businesses on a one-on-one basis. And you need to analyze their capability, their future goals, their capacity. You need to make those decisions on a one-on-one basis. We pride ourselves in doing that.

"This is a relationship business. On the whole, the specialization of our dealer organizations will continue to increase. They will need the capacity to deal with multiple customer segments. Our dealers will need the capability to prosper in good times and in the not-so-good times. Sustainability is becoming vital."

Responding to questions about the "Caterpillar distribution and service model," Lagemann reiterates that "This is a relationship business. I don't see us going to the type of organization where one dealer covers several states.

"The sweet spot, if you will, is a dealer that has the size, scale and capacity to deal with the dynamics of the customer base. Our dealers need to be recognized on a local basis as dealing with local farm customers with a relationship approach, not an industrial approach. This is extremely important to us."

"The key is finding that sweet spot. You must foster the individual community cultures with a set of consistent business processes. Then you have the best of all worlds."

Utilizing Other Distribution Channels

With Deere's decision to sell lawn and garden tractors direct through the box stores, some have speculated that this might use this approach with other equipment, as well.

According to Lagemann, "This theory is more of a myth than fact. We'll continue to do business with independent dealers. Will we have some direct sales? Yes. We'll have some direct sales with customers that desire central purchasing, consistent purchasing. You will always need dealers for service to meet local requirements. The future of the dealer is quite bright.

"We're in the second year of this arrangement and we're extremely pleased with the strategy, because we recognize the fact that the consumer base has changed. People like to go into a big box store and buy their hardware and other yard product needs. They want to do it on Sunday afternoon or Thursday night. We recognized the trend.

"What can we bring to the marketplace that differentiates us? Clearly, the dealer organization is a differentiator. The dealers are involved in every pre-delivery aspect of lawn tractors. Not all dealers, of course. Every tractor is pre-delivered through a dealer. And they have an opportunity for all the follow-up parts and service business. In fact, their sales of lawn tractors have gone up because of the exposure and the strategy to advertise consistent pricing. The majority of our dealerships will tell you they're generally pleased."

The Internet has also become a

Loyalty To Color?

If anyone has a stake in maintaining the consumer's loyalty to ag equipment "color," it is John Deere. Beyond the professional farmer, "green" equipment is immediately associated to John Deere products and, in many cases, John Deere quality.

Mark von Pentz

"Loyalty to color has always been very important, especially in the North American market," says Mark von Pentz, John Deere's vice president of marketing. "We believe that behind loyalty is a positive ownership experience. So, if people are happy with what they bought and happy with the experience that the manufacturer and dealer delivered, they come back. For us it's very important to provide a great ownership experience because it increases the loyalty.

"Our number one goal is to keep the customers that we have coming back and not leaving us. We're spending a lot of energy in this area."

Despite its legacy of farm customers loyalty to the "green," when it comes to smaller utility and compact tractors, the fastest growing segment in ag equipment the past few years, Deere faces the challenge of developing and maintaining a new customer base who may wil pay as much attention to the "color."

"There is much more competition in this range of tractors," says von Pentz. "The lower horsepower end is a challenge. We've tended to come from the upper end of farm equipment for the professional farmer.

"We've expanded our compact tractor line and are stressing simpler technology, simpler operation at a lower cost. But there will be no doubt that they are John Deere tractors. They will have all of the core attributes that our long-time, loyal customers have come to expect from us. They're not the fanciest tractors, but they share the same qualities of our bigger equipment," says von Pentz.

Beyond the equipment itself, von Pentz knows that another big challenge in developing this new market for compact tractors will be for the dealers themselves.

"These are a different type of customer, so you need a different breed of salesperson. The traditional salesman sometimes finds it difficult to deal with the new consumer. They speak a different language and don't always understand standard farm equipment terminology. It requires a different kind of salesmanship."

He adds that it may go so far as to requiring a new and different culture withing the dealerships themselves. "These people want their equipment running over the weekend and they are sometimes more challenging than the professional farmers. When something breaks down on Saturday, they want it running that day. Establishing color loyalty with this customer base will take some effort, but we think we've got an edge," says von Pentz.

cause of concern for some ag equipment dealers. Lagemann views the web as a viable channel for limited sales and distribution of some consumer equipment, and sees great potential for consumer information and support.

"We offer the ability for consumers to purchase some of our lawn equipment online. The reason we do that is the delivery requirements are more streamlined. But it's important to note that when we do, we offer the dealer a full margin in the delivery process. All we do is identify the transactions.

"As far selling new farm machinery on the Internet, it's is not going to happen. But on the other hand we want to take advantage of the Internet to provide information for the purchasing decision. So the Internet is a great tool. We don't see it as a large, complete transactional type of medium, though."

'One Size Fits All' Approach Isn't a Fit for New Holland

NEW HOLLAND

By Dave Kanicki, Managing Editor

If anyone is qualified to lend an empathetic ear to today's ag equipment dealer, Bob Crain is near or at the top of the list. He grew up on the dealership side of the business, and this year marks his 25th year participating in agribusiness from the manufacturing side of the industry.

Today, as the vice president North America for New Holland Agricultural Business, his perspective of where the farm machinery industry is today and where it's heading is a mix of pragmatism and confident optimism. For good or bad, the industry is changing rapidly, he says, and those who choose to accept and adapt to the changes, will find "good news" ahead.

Crain understands the concerns of his New Holland dealers who are hearing the talk and, in some cases, seeing the effects of dealer consolidation and other issues like succession planning. His straight-forward response is "There's no doubt we're headed down the road to fewer dealers. What that number is, no one can say. There is no magic number for New Holland because we don't know ourselves. This industry is changing so rapidly that what might have been the case last year is not the case this year."

At the same time, he knows that a solid manufacturer-dealer relationship will be the key to understanding and adapting to the changes ahead, and a "one-size-fits-all" approach doesn't work.

Numbers Tell the Story

Crain demonstrates his point about the accelerating rate of change taking place in the industry by looking to the declining numbers of operating farms in the U.S. "In the last 5 years alone, " he says, "the total farm count has dropped another 4%."

To further illustrate the demographic shifts taking place in farming today, he says that during these same 5 years, all farm sizes were down except those in the 10 to 49-acre range, which increased by over 6%, and the 2000 plus-acre farms that grew by nearly 5% since 2000. Just as important, he says, is that today 76% of all U.S. commodity sales are generated by just 7% of U.S. farms.

Changes of this magnitude ultimately impact every aspect of farming. From governmental farm policies and programs to commodity pricing to ag equipment production and sales, everyone feels the discomfort of rapid change.

According to the New Holland executive, between 1990 and '05, the number of North American dealer locations fell from 7,400 to 4,700, a drop of 36%. As Crain points out, "Obviously the trend is less overall ownerships with more multiple locations."

He says, "Of course, it's the dramatic change in production agriculture that is the main driver. Fewer and larger farms certainly have had substantial impacts. Not the least of

> "The dealer must be viably profitable. Without a doubt, it has to be good for him. And if it's good for him, it's typically good for us."
>
> — Bob Crain, Vice President Agricultural Business, New Holland

these is the increase in competitive pressures. All of us are competing for fewer customers. And, for the dealer, it has been the need to achieve economies of scale, business management efficiencies and dealer profitability."

Crain also cites the tremendous growth of the small tractor industry as a transforming factor for ag equipment. Between 2002 and '04, the under 40 hp industry grew 37% from 103,000 to 141,000 units. In addition, in '04 the under 40 hp segment represented about 60% of the total tractor industry, accounting for 141,000 of 246,000 tractors. Taking these numbers further, he points out that 70% of the under 40 hp industry growth comes from only 35% of the metropolitan/suburban market.

"We expect this will also begin to reflect multi-dealer locations in suburban/metro markets," says Crain.

Enter the Multi-Store Dealer

In order to cope with these sea changes, much of equipment industry is focusing on growing multi-store complexes, leaving some smaller dealers to wonder about their future. Crain sees a future and place for the single-store operator, with some qualifications.

"Multi-store complexes will not be the panacea for everyone," he says. "There is a place today and a place tomorrow for stand-alone dealerships. But in my opinion, these stand-alone dealerships must be in a position to offer a unique value proposition that sets them apart from the rest of the pack.

Asked to define "value proposition," Crain explains, "It is not, for example, simply offering good parts and service as everyone advertises and most dealers deliver. That is expected.

"Something that truly sets you apart from the rest of the pack might be some type of unique agronomy service or some type of unique product not offered by the others. Or it might be filling some special market niche for your customers. There's a different answer for every location and market," he says.

On the other hand, dealers looking to grow through multi-store locations will face significant changes as well. Crain says that it is going to require "aggressive, challenged and focused dealers who are willing to make the decisions and commitments necessary to become a more competitive dealership that can profitably maintain a strong position in the market place.

"It's going to require financial strength, a willingness to make customer satisfaction a top priority, and a willingness to pursue a closer and stronger business relationship between you and many of your customers. And a closer and stronger business relationship between yourself and the manufacturer. "

One Strategy Doesn't Fit All

But Crain makes it clear that it is a mistake to lump all dealers into a single group and to make general assumptions about what individual dealers need to do to succeed in the future.

"While a reduction in the number of operating dealers is inevitable," he explains, "what we all need to understand is that what's right in a certain area of the country is not necessarily right for another area of the country. It truly varies area by area. The California ag market is a whole lot different from Iowa or Illinois, which is a whole lot different from that in Northeast. One strategy will not fit all dealers. Each situation must be looked at individually."

Crain agrees that 5 years down the road ag equipment dealers will not look and operate as many do today. But successful dealers may take very different paths.

Some Advice for Expanding Dealers

For dealers looking to expand their operations, Crain offers his thoughts on some critical issues they'll need to consider.

"Capital is obviously one of the most critical areas. You can only grow as fast as you can fund the growth. Sounds simple enough, but poor capitalization has been the downfall of many attempts to grow a business. It's essential that you have enough operating investment to support sales volume. And likewise, if there is adequate working capital, it is equally essential that it is properly managed.

"Our guidelines show that dealers need an operating investment of $125,000 for every $1 million in sales revenue. So, if you are adding a new location with sales of $4 million, you'll need about $500,000, not including land and buildings. A multi-store location must be funded to support planned sales volume.

"Another key requirement for expansion is to build a skilled staff and match their skills to their roles and responsibilities. At times, that means assuming the role similar to a CEO — being able to distinguish between managing the minute details versus the big picture or somewhere in between. It means listening as much as you speak. It means having a company philosophy or culture that the staff buys into and follows.

"Staff and organizational planning is a critical — and a very sensitive topic. For companies that are expanding, I strongly encourage a well thought out 'transition plan' that incorporates your strategies and policies into the acquired organizations. There should be 'one' benefits program and 'one' pay and incentives program, and a good system to measure and track employee performance.

"As multi-store organizations increase, one must recognize the need for more professional, as well as technical, expertise. Computer literacy throughout the organization is a critical requirement.

"There is also the need to establish financial management accountability, including cost control, at every location. Key managers must be responsible for asset management and expenses. And these managers should be involved in a 'by location' budget process.

"If you make the decision to be one of the survivors in this industry through expansion, make certain that you do it with eyes wide open. "

"I strongly believe what's good for the Midwest industry is not necessarily right for the Northeast. Is not right for the Southeast. Is not right for the West Coast."

Crain exclaims that, "What's really fun about this industry, from my vantage point, is that it is truly an eclectic industry and as a result, our dealers are eclectic. One size shoe does not fit all."

It Comes Down to Performance

When all is said and done, performance and results ultimately tell the story.

"There's no magic to it," Crain says. "Obviously we have industry numbers on what is being generated in each dealer's area of responsibility. It doesn't take a rocket scientist to figure it out. If you look at the industry dollars generated in an area and you see three other competing dealers in the same area, you know that , in some situations, there's no way that all of these stores can profitably maintain a business in that area in the long term.

"The dealer must be viably profitable. Without a doubt, it has to be good for him. And if it's good for him, it's typically good for us."

Succession Planning Concerns

Another issue causing dealers concern is that of succession planning, turning over a developed business to a family member or even selling an the concern to a willing buyer. Dealers continue to report that the manufacturers have often succeeded in thwarting a sale to satisfy their consolidation interests.

Crain is familiar with this dealer fear too, and says, "At New Holland I don't know of any situations where we've told a dealer you can't leave it to your kids or grandkids."

From Crain's perspective, many of these situations boil down to the manufacturer-dealer relationship.

"Without a doubt, part of the working relationship is to have discussions like these and say 'Mr. or Mrs. Dealer, you're responsible for a total universe of only $6 million. There are two other competitors here in the area and you're competing with them for a slice of that $6 million pie. With all the overhead of a pure, stand-alone dealership, it's going to be extremely difficult, if not impossible, for you to do succeed without specific actions.' We do have these types of discussions. Again, I think that's what good manufacturer-dealer relationships are all about."

Crain feels that when a solid rapport exists between the two parties, the two can address the situation further. "We might say, 'Have you thought about some type of arrangement with a dealer in an adjoining area? As a company, can we at New Holland help you facilitate this? Can we get together and at least start the discussions if you're interested at looking into it?'

"But we have never had a discussion with a dealer where we've said "Are you are a buyer or a seller? Decide which one you are."

> "There is a value proposition the dealer offers and that proposition is significantly different and of more value than what a box store can offer."

"I suppose, in certain situations, we could decide not to renew a contract," he continues. "It would obviously depend on the performance of the individual dealer for the past several years. If it's a marginal operation, we would need to have a difficult discussion."

The Manufacturer's Role

While much of the discussion today revolves around what the dealer can or can't do, Crain also understands that the manufacturer plays a significant role in the success of its dealerships. For example, in light of the rapidly shifting market for ag equipment, it's the manufacturer's responsibility to provide the retailer with the products to meet changing customer requirements.

In terms of the small tractor boom, Crain says, "New Holland's core strength has always been in the under-100 hp business, particularly for the hay, dairy and livestock business. We have very loyal customers that we will never abandon. We will continue to grow that segment of the business.

"Going back to the early '90s, we took a hard look at the big equipment business, the cash-crop type operations, and made some substantial investments in the CX and CR combines and the row-crop tractors. This allowed our dealers to make significant inroads into the bigger equipment markets and it has been a very good business for all of us during the past 3 or 4 years, especially with net farm income at record levels. We installed some very good dealers during that time, too. "

Crain also credits the Internet with helping New Holland improve communications and fill niche needs for its dealers and customers.

"New Holland is such a global company that we make some very specialized equipment for unique applications and geographies. The information is on our web site for our dealers and customers.

"I've gotten calls from our dealers who say, 'I saw on the website that in Italy you're selling this specialty tractor for the vineyards (or for some other specialty application). That tractor would be perfect for this area of California." Because of these types of discussions, we have on occasion made decisions to bring products designed for use in southern Europe, for example, to California," says Crain.

As a result, he says, "There are always new markets being generated. More and more of our small tractors are being used for different applications, such as municipal work and they're being used for much more heavy-duty work that will require replacement in 2, 3 or 4 years. The business will always be there if we listen to our customers and our dealers are our ears in the marketplace."

> "In my opinion, these stand-alone dealerships must be in a position to offer a unique value proposition that sets them apart from the rest of the pack."

Going Direct?

What he says New Holland will not do is circumvent its dealers. "At New Holland there has been no discussion of bypassing the dealer. Zero discussion. It's common sense that we need the partnership. There's no way around it."

He also reiterates the value a good dealer can bring to the equation. "Can you offer the agronomy or service knowledge that customers rely on? There are a lot of soft skills needed to sell our equipment. Can we do it without a strong, local or regional distribution network out there? No, I can't see that happening. Within New Holland, there has been no discussion of moving in that direction."

And what about the box stores?

In his own matter-of-fact way, Crain says, "We take all competitors seriously. We try to keep our eye on the ball and do what's best for New Holland, our dealers and our customers."

Does New Holland ever see the day when we do something like this? "You can never say never, but there has been no discussion. Again, it comes down to what the dealer offers the customer. This varies from area to area. It might be service, it might be parts, agronomy knowledge or whatever. There is a value proposition the dealer offers and that proposition is significantly different and of more value than what a box store can offer."

The Good News

On the heels of three surprisingly strong years for farm machinery, some are already sending dour signals about how the market cannot possible hold up in 2006.

Crain is pragmatic enough to know that all market cycles eventually come to an end. This doesn't necessarily portend bad times ahead. "For the most part," he says, "the past 10 years has been good for this business and I'm hearing and seeing enough good now to feel that the future is extremely bright for this industry. If you look at key indicators such as the stocks-to-use ratio, plus the developing world out there, I think there is good news for not only the North American farmer, but for worldwide farming as a whole.

"I think you have to be extremely bullish on agriculture. Arguably, more so now than ever because of the potential growth beyond North America. For the Corn-belt farmer, exports will be the key. Exports will be the key for all of the small and course grain markets." FE