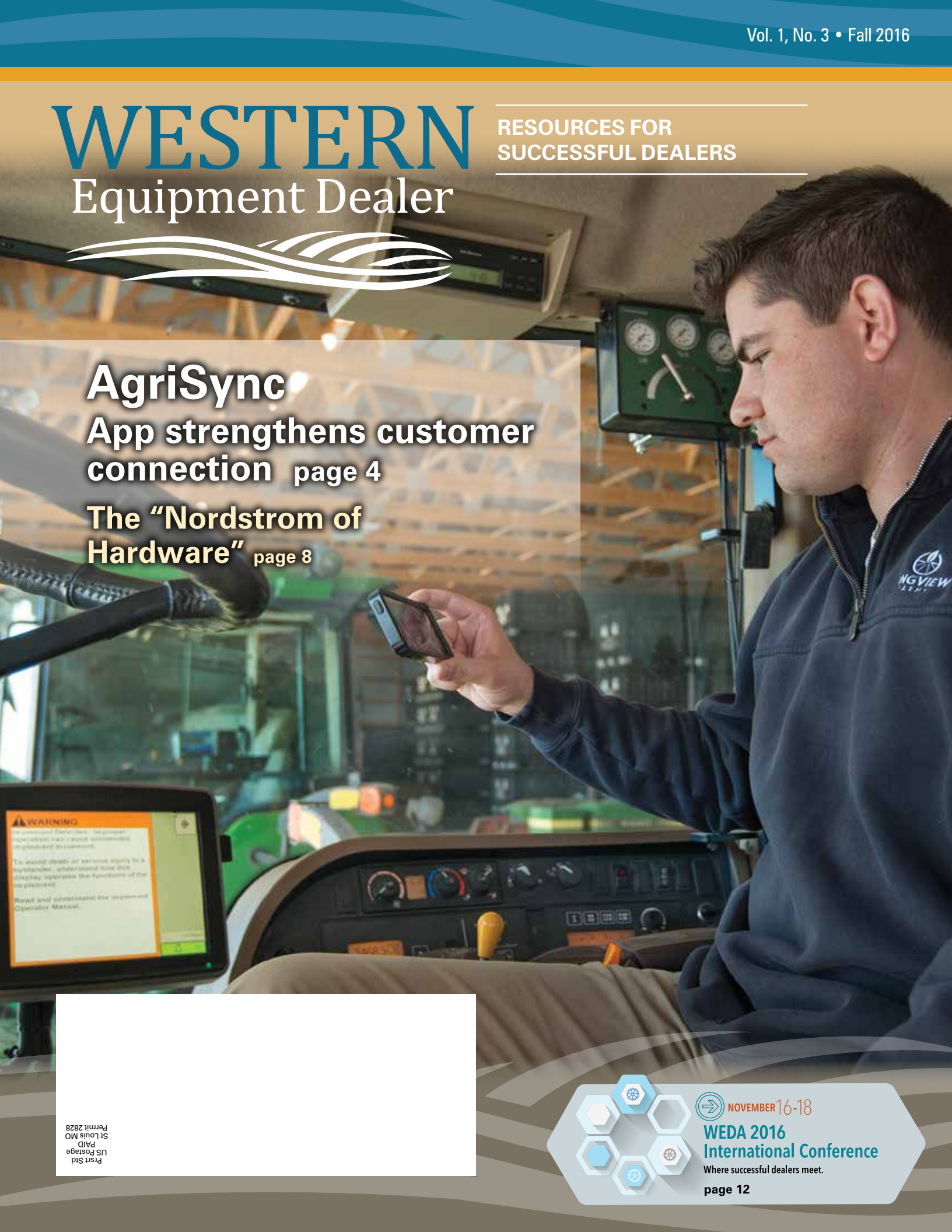
Vol. 1, No. 3 • Fall 2016

WESTERN Equipment Dealer

RESOURCES FOR SUCCESSFUL DEALERS



AgriSync

App strengthens customer connection page 4

The "Nordstrom of Hardware" page 8

NOVEMBER 16-18

WEDA 2016 International Conference

Where successful dealers meet.

page 12

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WESTERN Equipment Dealer

RESOURCES FOR SUCCESSFUL DEALERS

IN THIS ISSUE

Vol. 1, No. 3 • Fall 2016

FEATURE

COLUMNS

INDUSTRY NEWS

Photos courtesy of Iowa Farm Bureau

Scott Henry, who farms in Nevada, Iowa, uses the AgriSync app on his smartphone to communicate with a technician at a dealership.

App strengthens customer connection

By LYNN GROOMS

USING AgriSync, equipment operators are able to communicate in real time with technicians via a smartphone. Having this capability gives dealerships another option in providing immediate service to equipment customers.

This spring the integrated solutions team at PrairieLand Partners began using AgriSync, a new mobile app designed to connect problem-solvers – such as equipment technicians – with customers via live video calling.

Not too many customers of PrairieLand Partners, a John Deere dealership with 10 locations in south central Kansas, are using AgriSync yet, but that will likely change as more farmers become aware of what the app can do.

Picture a farmer sitting in a combine in the middle of a corn field. His yield monitor just stopped working. He calls his dealership but is growing more frustrated by not being able to adequately explain what just happened. On the other end of the phone line, the dealership's precision ag specialist is trying to walk the farmer through several steps to pinpoint the problem or to determine if a component might need replacement. Meanwhile the farmer is thinking, "What is this downtime costing me?"

This scenario is one of the reasons why AgriSync was created. Live video can help precision ag specialists, technicians or agronomists actually "see" what the farmer is seeing in real time. It also can help them better troubleshoot a problem, which may be a simple fix or require a part. If a simple adjustment can be made, a service call doesn't need to be made and the farmer can return to work.

"AgriSync already has helped us solve a few problems that were probably going to require a service call," says Marty Albrecht, integrated solutions specialist for PrairieLand Partners. "We feel that it certainly can connect us more with our customers, and we're using it to leverage our precision ag troubleshooting and customer support."

The Kansas dealership has a support line that customers can call. But, if customers don't have remote display access with John Deere's JDLink subscription, PrairieLand Partners can provide almost the same connectivity with AgriSync, Albrecht says.

LYNN GROOMS is an agricultural journalist living in Mt. Horeb. Wis.

From a tractor cab, the AgriSync app can be used to connect with a dealership technician to verify machinery codes or diagnose and fix software problems on precision equipment.

Photo courtesy of Iowa Farm Bureau

Efficient service solution

The Western Equipment Dealers Association (WEDA) announced its endorsement of AgriSync in May. One of the reasons for the endorsement is that AgriSync is one solution to the growing need for faster, more efficient customer service.

"Our members have long shared the challenges in providing quick and efficient service to customers as our territories grow," says John Schmeiser, WEDA's CEO. "They've also shared that not all of their staff time can be billed due to travel – and a lot of advice has been shared on the telephone without any chance to recoup costs for providing that advice. We've been continually looking for solutions for dealers in this area, and were approached by AgriSync."

The app allows dealership personnel to track their service time through a ticketing system, which can be linked to most accounting/billing systems.

"We automatically track time, issue resolution and customer feedback and allow data to be exported via an Excel program into the dealership's system," says Casey Niemann, AgriSync president.

"The tracking system also can be used for advisor-to-advisor sessions, which are great for mentoring new hires," he says.

Advisors could include equipment dealership technicians as well as a farmer's other advisors, such as an agronomist, precision ag specialist or crop consultant. And the app is not limited to agricultural users.

"The technology can be used by any customer who needs to speak to a service advisor, parts personnel or any dealership employee," Niemann says. "And any company that provides remote service work or provides advice over the phone can benefit from this service."

The app is free to farmers and other customers. Advisors pay an annual subscription of $500 per advisor. Because of the WEDA endorsement, WEDA members are eligible to receive 50 percent off the first advisor seat from each dealership for the first year of subscribing to AgriSync. WEDA member-subscribers also will have access to AgriSync educational webinars.

"For less than the cost of one farm gate visit, a dealer advisor can use AgriSync for a year with all of their farmer customers as often as they would like," Niemann says.

With the AgriSync app, the average call requires about 10 minutes. Without video-calling capability, farmers frequently spend 30-50 minutes on the telephone and then could wait another couple of hours for a service call, he says.

Niemann adds, "When the customer creates a ticket in AgriSync, the problem gets addressed – there's accountability."

PrairieLand Partners has set up support sessions to introduce customers to the AgriSync app.

Niemann says, "Proactively discussing customer service with farmers before they have an issue is a great way to show them the value of your time and expertise."

Albrecht adds, "The biggest hurdle we've had is explaining how to install an app to someone who is already struggling with technology."

Therefore, the dealership has offered to install the app on customer phones. Six precision ag specialists and two technicians at PrairieLand Partners have the app on their phones. Some of the dealership's salespeople also have installed the app so they can receive technical support when they're with customers.

AgriSync hopes to help advisors create superior customer service experiences, Niemann says. The app is one way equipment dealerships can deliver and track their customer services more efficiently, and it can help a dealership differentiate itself in the market. For advisors and their customers, it's a win-win. WED

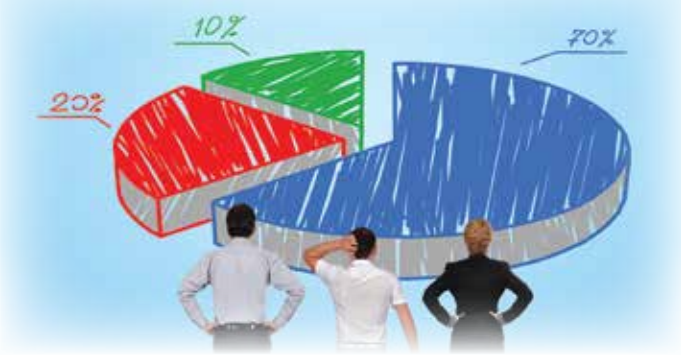
Casey Niemann, president, AgriSync

John Schmeiser, CEO, Western Equipment Dealers Association

Asset Allocation

Choosing a strategy that works for you

By DAVID WENTZ



ONE OF THE BIGGEST QUESTIONS that you as a 401(k) participant or equipment dealer sponsoring a 401(k) plan must answer with regard to growing or facilitating your 401(k) is what kind of strategy should I use to fund, or build my portfolio?

What is the right combination? Again, that depends on your situation. Some may use a 70/30 split between stocks and bonds, or an 80/20 split.

One possible answer to this question is through Asset Allocation. By definition, this is essentially spreading out your assets across multiple and various classes of securities. Think of stocks, bonds, mutual funds, certificates of deposits, even cash. The fact of the matter is that educating yourself about Asset Allocation is one of the best things you can do in your retirement planning, if not the best. Think of it as a type of risk reduction strategy.

Life factors matter

Asset Allocation is like everything else in the financial world, being that it's determined based on various factors in your life.

Some things to be considered when determining how to allocate your assets include your age, what your financial needs upon retirement will be, your tolerance for risk, the rate of return you are receiving, and the time in which you will need your accumulated savings.

These are just a few of the questions you need to answer that will help you to allocate your assets. It is also important to understand that Asset Allocation is all about your situation. No two asset allocations are the same. Creating an Asset Allocation is a huge decision, so don't treat it lightly.

Minimizing investment risk

Although Asset Allocation is a risk reduction strategy, it should not be confused with the idea that it can completely eliminate risk. Nothing you can do will erase risk, as some degree of risk is always present in investing your money regardless of the strategy or platform you use. The principle behind Asset Allocation is that if you have successfully allocated your assets or portfolio across a broad spectrum of classes of securities, then when one of your assets experiences a rough stretch, not all of your portfolio is adversely affected. Therefore, you want your assets in your allocation to move independently of one another. By allocating your assets you can reap the investment benefits from multiple channels of the market.

Furthermore, if one of your investments does indeed go through a period of negative volatility, that doesn't mean automatically get out and change funds. This is called market timing, which requires advanced skills involved in reading the market and is difficult because the market is constantly moving and changing. Allocation allows your assets to participate in market growth as it develops.

However, there are situations where you will want to consider changing or moving your allocation. An older investor has less time to make and invest money, thus it's smart to move your assets out of the stock market and into safer, less risky portfolio options, such as low risk mutual funds or fixed income securities. On the opposite end of the spectrum, if you are young you have more time to earn and invest money. In that case, as an investor you can afford more risk. So putting your assets in the stock market or equity mutual funds could be a good option. One of the most common ways to determine how much to invest in the stock market is simply to take your age and subtract it from 100. This will give you the percentage of your assets you should invest in the stock market, with the remainder being held in bonds or other securities. Age plays a vital role in Asset Allocation. Therefore, as you get older, you need to keep your assets in mind so you can change and adapt your Asset Allocation if need be.

Situational planning

Since everyone's situation is different there is no one set way for you to allocate your assets. However, each situation requires a unique plan or strategy to achieve your goal as an investor. There are a couple of things to consider when determining how to allocate your assets. As previously mentioned, the younger you are the riskier you can afford to be. Thus as you get older, the more conservative you can become.

Remember, Asset Allocation in retirement planning is a long-term strategy, so plan accordingly. Most 401(k) Retirement Plans are comprised of investment options that include stocks, bonds, and cash or money market funds. What is the right combination? Again, that depends on your situation. Some may use a 70/30 split between stocks and bonds, or an 80/20 split. As an investor, how much risk are you comfortable taking on? Will you be able to sleep at night knowing your money is in the stock market?

Your financial advisor works for you, so talk with your advisor about any thoughts or questions you may have in regard to the Asset Allocation of your 401(k). WED

DAVID WENTZ is CEO of Tax Favored Benefits, Overland Park, Kan.

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The "Nordstrom of Hardware"

By LYNN GROOMS

WASHINGTON'S Gig Harbor Ace Hardware and Bainbridge Island Ace Hardware offer Nordstrom-style customer service and special touches.

Maggie Garber recalls one of her customers referring to Gig Harbor Ace Hardware as the "Nordstrom of Hardware," the store she owns in the Washington State community of Gig Harbor.

The online reviews for Gig Harbor Ace Hardware and Bainbridge Island Ace Hardware – which is owned and operated by Steve and Becky Mikami, her daughter and son-in-law – are mostly positive. Here's a sampling:

- *"A very well run store with excellent buyers …"*
- *"Super helpful staff offering the type of service you absolutely will not find at the big-box equivalents."*
- *"There are plenty of knowledgeable salespeople who will take the time to help me get what I need. They have a large selection …"*
- *"The people are really smart and really helpful."*
- *"Sure you can get lower prices [at a big-box store] but what you miss out on is proximity, time and service … try to buy two bolts or get useful advice at a box store. Furthermore, this proprietor supports the community. These are all considerations in the value equation."*

A common thread in these reviews and others is helpful staff. Interestingly, "hire right, and then empower your employees" is one of the top lessons that businesses of all types and sizes can learn from Nordstrom customer service, wrote Micah Solomon in *Forbes* magazine earlier this year.

Garber has been "hiring right" for years – evidenced by how many years some of the employees have worked for the business. Several members of the staff have worked for the company for 10-15 years. Garber and her husband, Del, who passed away four years ago, started the business in 1977.

The Bainbridge Island store is owned and operated by Steve and Becky Mikami, one of Maggie's two daughters. Her other daughter, Pam, lives with her husband, Eric, in Poulsbo, Washington.

Gig Harbor Ace Hardware is also a place where homeowners can purchase STIHL outdoor power equipment. Shown are manager Andy Rogala (L) and associate Robert Barkley (R).

Between the two stores, there are up to 50 employees ranging in age from 16 years old to 79 years-young. "I've found that the mix [of ages] works well," Garber says. "And we have high standards for customer service."

"Maggie has a passion for taking care of employees and hiring senior employees," observes Ron Moore, vice president of the Pacific Northwest Region for the Western Equipment Dealers Association.

Garber and her store managers walk the talk. They walk the stores' floors every day and have proactive relationships with employees, she says. Some of the new hires are suggested by existing employees, but the stores also regularly receive job applications.

"We have an open door policy," Garber says. "If a problem arises, we'll take care of it."

A profit-sharing plan is one of the reasons many of the employees have stayed, Garber says. The company also has a health insurance program through the Western Equipment Dealers Association with which the Pacific Northwest Association merged in October 2015. Full-time employees receive paid vacation and discounts on store items.

"We try to take really good care of people. It's not rocket science," Garber says.

Eight years ago, the Garbers added STIHL equipment to their product offerings. Employ-

LYNN GROOMS is an agricultural journalist living in Mt. Horeb. Wis.

Maggie Garber, owner, Gig Harbor Ace Hardware

Gig Harbor Ace Hardware

Established: 1977

Locations: Two stores in Washington State

Stores: Gig Harbor Ace Hardware, Bainbridge Island Ace Hardware

Owners: Maggie Garber; Steve and Becky Mikami

Employees: About 50 between two stores

Major lines: Ace, STIHL, Craftsman hand tools

Customer base: Homeowners

ees who service this equipment receive training at STIHL, and have earned bronze certificates to service the equipment. Paint department employees receive annual training from Ace Hardware. And, Garber uses retail training programs offered by the National Retail Hardware Association, to which she also belongs.

Leadership and people skills evident

Moore first met Del Garber in 1992 when Garber was elected to serve on the former Pacific Northwest Association's board. He also served as the association's chairman in 1997.

Formed in 1899 in Spokane, the association's mission was to represent the interests of hardware and implement dealers in Washington. In 1910, the organization became known as the Pacific Northwest Hardware and Implement Association because it had grown to serve members throughout Washington as well as in Oregon and northern Idaho.

About a century later – in 1998 – the Pacific Northwest Association formed a relationship with the National Retail Hardware Association. Membership in the Pacific Northwest Association automatically led to membership in the National Retail Hardware Association. The two associations eventually ended their relationship in 2009. But before this, Del Garber represented the Pacific Northwest Association as a representative on the National Retail Hardware Association's board for nine years. He also was president of the National Retail Hardware Association in 2004.

Continued on page 10

Well-known brands of products and point-of-purchase items are popular with Gig Harbor customers.

The addition of an indoor-outdoor nursery department gives Gig Harbor more than 32,000 square feet of shopping space.

Maggie Garber, owner of Gig Harbor Ace Hardware, created the popular "Maggie's Corner," a store within the hardware store. She says it's "an upscale gift and home décor area."

Continued from page 9

"Del's leadership and people skills were evident," Moore says.

The Garbers had joined the Pacific Northwest Association in the mid-1980s after receiving a mailing from the organization, Maggie Garber says. Now part of the Western Equipment Dealers Association, the organization continues to advocate for equipment dealers and hardware companies at the state level, Moore says.

Over the years, Maggie Garber attended the various association meetings. "She always has been an integral part of the business, and has a very good understanding of her customers," Moore says.

He points to her creativity and willingness to take on challenges by establishing an upscale gift and home décor area – known as Maggie's Corner – in her hardware business. She also holds evening events for customers to learn what's new in hardware and gift items.

The Garbers created their own advertising group and designed flyers to match the specific needs of their customers in the resort town of Gig Harbor. They also celebrated the ambience of Gig Harbor by hiring an artist to paint a mural inside the store and offering Gig Harbor souvenir items.

Originally from Pekin, Illinois, the couple embraced their new community. While they didn't have backgrounds in the hardware business (Del Garber had been a mechanic and owned a Texaco service station with a convenience food market), they became well-acquainted with the owner of the Gig Harbor hardware store they would buy in 1977. At that time, the store was a Coast to Coast franchise. The Garbers had purchased a home in Gig Harbor and frequented the hardware store.

The Garbers eventually expanded the store from its original 3,200 square feet of space to 7,000 square feet and then again to 12,000 square feet.

Del Garber was a founding member of the Gig Harbor Chamber of Commerce, which was formed in 1981. Gig Harbor Ace Hardware remains a member.

"Maggie Garber has a very good understanding of her customers."

Ron Moore, former CEO, Pacific Northwest Association

About 25 years ago, when Coast to Coast was having financial and inventory supply issues, the couple decided to join the Ace Hardware network. They researched other national hardware chains, but agreed that Ace Hardware made it easier to purchase products, Maggie Garber says.

Meanwhile, Gig Harbor's population continued to grow and changes were made to the city's road and transportation system. Traffic patterns changed and mass-merchandisers built on the outskirts of the city near new housing developments so, in 1999, the Garbers moved the store to the south of the city.

"We're on a busy corner. It's a happening place with young families," Garber says.

The new location allowed for the addition of a nursery department. With the indoor and outdoor nursery department, Gig Harbor Ace Hardware now has 32,000 square feet of space.

The new location also allowed Maggie's Corner to expand and feature gifts and home décor in larger displays. The company also offers a line of Craftsman hand tools.

Along with a commitment to excellent customer service, Garber has maintained the company's dedication to the local community – supporting organizations like Rotary, Lions, Optimists, and scout troops. The company also donates to a number of school auctions. The Garbers were named Gig Harbor Citizens of the Year in 2005.

Just as the Garbers empowered their employees, they also empowered their community… a tradition Maggie Garber continues. It's not only a business philosophy – it's a way of life for the "Nordstrom of Hardware." WED

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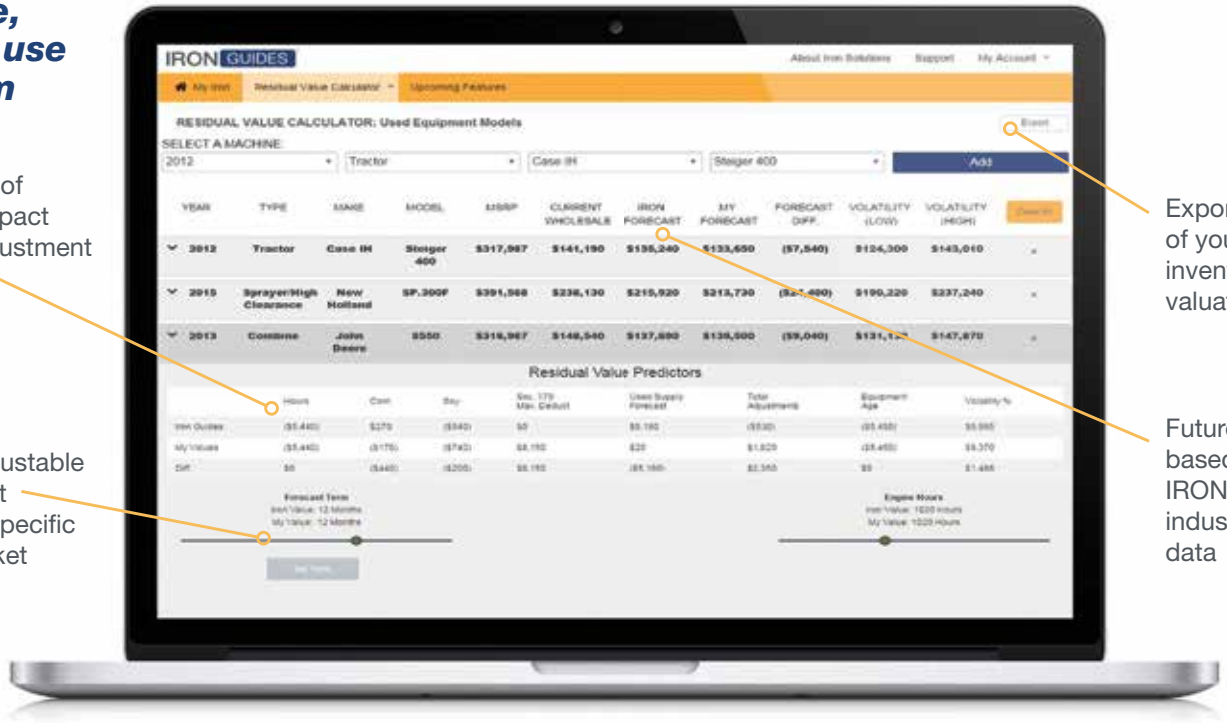

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SAVE THE DATE

NOVEMBER 16-18

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WEDA 2016 International Conference arrives in November

IF YOU'RE TIRED of getting industry information by e-mail or some form of social media, consider attending the 2016 International Conference hosted by the Western Equipment Dealers Association (WEDA).

The conference, which is Nov. 16-18 in Scottsdale, Arizona, will be where dealers and industry officials will meet face to face – no hashtags, no text speak, no emojis (smiley faces), or pages to "Like."

According to WEDA CEO John Schmeiser, the conference represents the first meeting of the "new" association, which has become the largest dealer organization in North America. Through recent mergers with dealer associations in the U.S. and Canada, WEDA's membership now covers dealers in nine states – Idaho, Kansas, Missouri, Montana, New Mexico, Oklahoma, Oregon, Texas, and Washington – all of western Canada and other Canadian provinces.

"In addition to this being the first gathering of the new organization and WEDA's member dealers from various regions, several high-profile speakers will provide timely and sometimes provocative programming for members," says Schmeiser. "We also have invited manufacturers to host individual dealer meetings where dealers set the agenda and the discussion items."

But just being there and just listening to speakers isn't what Schmeiser envisions for dealers who attend this event. "In addition to the manufacturer meetings, dealers will find the conference to be the perfect forum for networking with other dealers and manufacturers. There are some social activities as well, like a fundraiser golf tournament and welcome reception."

What dealers will take away

Billed as an event "where successful dealers meet," Schmeiser expects dealers to walk away from the conference with information that can be put to use right away in their dealerships. "The speakers and presentations are designed to provide dealers with ideas and strategies they can take home and put into everyday use. Information about precision ag strategies, sales approaches and surviving economic downturns and industry adjustments are topical items that will benefit a dealer's operations immediately and make them more successful."

What the conference will leave behind

Schmeiser also expects the association to walk away from the conference with ideas that will help WEDA serve its growing and diverse membership, which consists of agricultural, outdoor power, construction, and hardware dealers. Additionally, Schmeiser hopes the conference leaves dealers with a positive impression of WEDA. "We want dealers to leave the conference with a clear understanding that their new association is a vibrant organization that is looking for solutions to assist them in their operations. Conference programming will be a mix of high-level discussions and ground floor strategies, which will ensure that WEDA is the leading dealer organization in North America." WED

For additional conference details and updates, visit WEDA at https://westerneda.com/save-the-date-nov-16-18.

At a glance

The WEDA 2016 International Conference will focus on sales with emphasis on the future of the industry, technology and the equipment economy. Presentations will be made by some of the industry's leading experts. Plus, dealers will have the opportunity to meet with manufacturing representatives during in-line meetings.

WEDA 2016 International Conference Program

Wednesday, November 16

7:30 a.m. – 1:30 p.m.	Golf tournament (includes lunch) Fundraiser for Western Equipment Dealers Foundation
2:30 p.m. – 7:00 p.m.	Manufacturer/Dealer in-line meetings
5:30 p.m. – 7:00 p.m.	Shared Dinner
7:00 p.m. – 9:00 p.m.	WEDA Welcome Reception

Thursday, November 17

7:00 a.m. – 8:00 a.m.	Breakfast
8:00 a.m. – 9:00 a.m.	Keynote Address – John Schmeiser, CEO, WEDA
9:00 a.m. – 10:00 a.m.	*Machinery Outlook* – Ann Duignan, J.P. Morgan Chase
10:00 a.m. – 10:30 a.m.	Break
10:30 a.m. – 11:30 a.m.	*Tracking Precision Technology Trends to Boost Your Bottom Line* – Jack Zemlicka, Lessiter Media
11:30 a.m. – Noon	WEDA Annual Meeting
Noon – 1:30 p.m.	Lunch
1:30 p.m. – 3:00 p.m.	*Time to Talk Production: Removing the Precision Gag From Your Dealership* – Devin Dubois, Western Sales
3:00 p.m. – 3:30 p.m.	Break
3:30 p.m. – 5:00 p.m.	*The Next 15 Years of Farming Technology* – Kit Arrow, Futurist
6:00 p.m. – 11:00 p.m.	Silent Auction
6:00 p.m. – 7:00 p.m.	Reception
7:00 p.m. – 11:00 p.m.	Dinner Entertainment: You Just Have to Laugh – David Naster, Comedian

Friday, November 18

7:00 a.m. – 8:00 a.m.	Breakfast
8:00 a.m. – 10:00 a.m.	*Managing Through the Turbulence in Today's Equipment Industry* – Dr. Jim Weber
10:00 a.m. – 10:30 a.m.	Break
10:30 a.m. – Noon	Dr. Jim Weber's program – Part II
Noon – 1:30 p.m.	Lunch with Closing Keynote – Sheriff Joe Arpaio, Maricopa County, Arizona

Conference Hotel and Registration

- The WEDA 2016 International Conference will be held at The Scottsdale Resort at McCormick Ranch in Scottsdale, Arizona.
- Guests may call direct at 800-540-0727 before Oct. 24, 2016, and identify themselves as part of the WEDA group. WEDA has a block of McCormick Standard rooms at $209 per night plus applicable taxes. There is a housekeeping service fee of $2 per room, per night, added to the individual room. The rate is good three days prior and after based on availability. Check in after 3:00 p.m. – check out by noon.
- The registration fee in U.S. dollars for WEDA members is $425; $625 for nonmembers.

Association Foundation Events

2016 Fall Golf Classic

The 2016 Fall Golf Classic will be held on Wednesday, Nov. 16, on the Pine Course at The McCormick Ranch Golf Course, in Scottsdale, Arizona. "McCormick Ranch Golf Club features two Desmond Muirhead-designed 18-hole championship courses, along with fine amenities that make this property one of the top golf destinations in Scottsdale," writes the *Arizona Golf Review*. "The green complexes are a bit less raised and more accessible than those on the Palm Course, making the Pine a little more playable for the average golfer."

The tournament will be a fundraiser for the Western Equipment Dealers Foundation. Registration by Oct. 24, 2016, is $175* per person. The format will be a four-person scramble, which makes it fun for every golfer – even those who are less skilled.

- Registration – 7:00 a.m.
- Shotgun start – 7:30 a.m.
- Lunch and awards – Noon

* Fees include lunch, green fees, golf cart and prizes.

Silent Auction

A silent auction in support of the Western Equipment Dealers Association foundations (CEDF and WEDF) will be held during the conference. All proceeds go directly to the foundation designated by the winning bidder and a tax receipt will be issued from the appropriate entity.

Everyone is urged to provide items for the silent auction. If you are unsure what to donate, simply send "WEDF" or "CEDF" a check for $250 or more, and we will purchase a suitable item on your behalf. Contributors will be acknowledged at the silent auction.

Please consider participating in this worthwhile cause by donating an item. No logo items, please.

WESTERN Equipment Dealers Foundation

WEDF is a 501(c)(3) organization, qualified under the rules of the Internal Revenue Service.

CEDF CANADA EQUIPMENT DEALERS FOUNDATION

CEDF is a registered charitable foundation under Revenue Canada policy.

By TRENT HUMMEL

What influences your trade valuations?

"When evaluating a potential trade-in, how much influence does the available data source have on your valuation decision?" This was a question on a recent survey conducted by the Dealer Institute (the training department of Western Equipment Dealers Association) and *Farm Equipment* magazine.

On a scale of 1-10, with 10 being highest, participants ranked the influence level of the following data sources:

1. Discussions with Wholesalers
2. Discussions with Auctioneers
3. Online TractorHouse Auction Results
4. Ritchie Bros. Auction Results
5. Machinery Pete Auction Data
6. Iron Solutions Guide Book Values
7. Iron Solutions Guide Book with Adjusted Values
8. Iron Solutions Real-Time Guides
9. Iron Solutions Real-Time Guides with Adjusted Values
10. Discussions with Competitors
11. Discussions with Inline Dealerships
12. Your Past Sales
13. Other Auction Results

The initial intention was to discover what dealerships are mostly using to discover accurate wholesale and retail used equipment values or fair market value (FMV). Over the years, dealerships have stated they do not use the guide book as much as in the past. If they do, the dealership has a predetermined percentage adjustment to one of the valuation columns.

As with all surveys, results were surprising and not surprising. When we read deeper into the survey data, there were signs of what is not happening in regard to determining used equipment FMV.

Participants by brand

AGCO	12%
Case IH	26%
John Deere	25%
Kubota	12%
New Holland	19%
Other	6%

There was a nice cross section of participants by brand. It is appropriate to have Kubota separated into its own versus lumped into "*Other*." The Kubota brand has been and is continuing to become well known in the market. The company is expanding its product offerings and wading into new territories. Think five years out. What other manufacturer will be listed on its own? Perhaps it will be a player not currently on our radar?

The "*Other*" classification is at 6 percent. Six of every 100 dealerships are not identifying themselves as one of the mainline choices. Are they selling 6 percent of dollar volume? This is a good indication that we are still working in an open market and any manufacturer that meets North American standards is welcome to play. The problem is how many choices or brands need to be offered? Let the chips fall where they may. But with manufacturers and/or dealers jumping in and out of markets, the result is chaos and no money is being made.

Participants by main product sold

< 100 HP	33.3%
100-300 HP	49.0%
> 300+ HP	14.7%
Not Applicable	3.0%

We kept it simple by segmenting dealerships by horsepower. This is a good indication of the other types of products the dealership sells.

"*Not Applicable*" at 3 percent indicates there is plenty of room for shortline-only dealership startups. As mainline manufacturers push for purity, shortline-only dealerships will grow in numbers, sophistication and financial strength. Mainlines are setting up a climate and appetite for shortline-only dealerships, which then become competitors. Mainline locations could reduce in numbers to make way for shortline-only dealerships. Mainlines should be careful what they wish for – it might come true.

Rank and weighted average

Overall, the ranking categories from 3 to 13 only have a 2.4 spread. This is favorable in that we are putting our eggs into one basket when shopping for used values. The sobering side of the survey reveals most data sources had an influence of less than 6 out of 10.

Rank	Data Source	Weighting
1	Your Past Sales	8.46
2	TractorHouse Auction Results	6.11
3	Iron Solutions Guide Book	5.69
4	Iron Solutions Real-Time Guides	4.94
5	Discussions with Wholesalers	4.76
6	Other Auction Results	4.76
7	Iron Solutions Guide Book with Adjusted Values	4.65
8	Discussions with Inline Dealerships	4.60
9	Discussions with Competitive Dealerships	4.60
10	Online Ritchie Bros. Auction Results	4.48
11	Iron Solutions Real-Time Guides with Adjusted Values	4.37
12	Machinery Pete Auction Data	3.49
13	Direct Discussions with Auctioneers	3.27

• **Rank 1**, *Your Past Sales*, with a weighted average of 8.46 is shocking. Why is this not 10? If we sold a used 3,000-hour tractor yesterday and today we are evaluating a similar hour, size, make, optioned unit, why would yesterday's sale not be 10 of 10 on the influence scale? It could be that multistore dealerships, which are spread out over multiple states, have products that are hot (or not) in their different market areas.

TRENT HUMMEL is a fourth-generation agricultural equipment dealer and a leader in the equipment industry.

With some business systems, there are issues with being able to retrieve what "real money" a unit sold for. In a few cases, systems can only produce a list number. The systems struggle with calculating the cash difference added to the trade wholesale value. Trades on trades on trades complicate this even further.

• **Ranks 2, 6** and **10** are *TractorHouse, Other Auction Results* and *Online Ritchie Bros. Auction Results*. In this survey, TractorHouse scored high at 6.11 but that's only 6 out of 10, which is not a definitive data source. Auction results do not seem to have as much influence as many thought. We have many sales managers saying that auction is the real money and we need to live by it. That sentiment is not reflected with a 6.11 average.

Other Auctions Results and *Online Ritchie Bros. Auction Results* are below 5. This was not surprising since many dealers, including me, go directly to the TractorHouse website where various auction company results are listed. This just makes it quick and easy to look at multiple auction results with one login.

• **Rank 5** is *Discussions with Wholesalers* at 4.76. With 82 percent of survey respondents identifying themselves as < 300 HP dealerships, we thought this would score higher. But knowing that < 100 HP dealerships do not take many trades, they might not be using wholesalers like other dealerships. Maybe there are not enough wholesalers to go around.

Every dealership should have a minimum list of five wholesalers (even 10) they trust and can contact to discuss values. Wholesalers want dealerships to buy iron correctly. It is the only way they will get their chance at acquiring it.

• **Ranks 3, 4, 7** and **11** are *Iron Solutions Guide Book, Iron Solutions Real-Time Guides, Iron Solutions Guide Book with Adjusted Values,* and *Iron Solutions Real-Time Guides with Adjusted Values*. We are constantly getting reports of dealerships using the guide books but with percentage adjustments in the value columns. The survey averages do not indicate that. Our survey findings reflect in the guide book and real-time guides, the weighted averages are higher when dealerships do not make adjustments to the values presented.

• **Ranks 8** and **9** are *Discussions with Inline Dealerships* and *Discussions with Competitive Dealerships*, which tied at 4.6 weighted averages. That is promising to be tied but their influence score is less than half. Are we not using each other as we should or do we not trust each other? In the days of owner-operated locations, there was a lot more calling around by dealers to discuss values and trends. Today, we are finding it common practice that sales managers within a multistore operation do not call each other. Is that because it's not their money sitting out in the yard verses the days of owner-operated dealerships?

• **Rank 12** is *Machinery Pete Auction Data* at 3.49. Participants in the survey are spread out from Florida to Alaska. It goes without saying that many corners of North American do not use Machinery Pete Auction Data. Many dealerships are too far away and they serve different markets. If we were to isolate the states into Machinery Pete's core area, the weighted average would increase.

• **Rank 13** is *Discussions with Auctioneers* at 3.27. With many dealerships seeing the light at the end of the tunnel regarding their oversupply of used iron, they are asking how to avoid overloading again or at least staying on top of trends. Based on the survey average, not nearly enough sales managers and salespeople spend time at auctions.

Visiting, building relationships, trusting auctioneers and, most importantly, following the auction truck are keys to FMV knowledge. Our survey indicates the second highest influence for equipment valuation is auction results. Now take that a step further and get to those auctions. Get the auction catalog and write down every selling price (or highest bid if a reserve sale), whether the bidding was hot or not, a unit's condition, etc. There is so much knowledge gained when your dealership's evaluator is engulfed in the auction circuit.

A dealer in a 20 group shared a story about hiring a new salesman. The salesman was instructed to meet as many customers as possible. The salesman went to every auction looking for opportunities and meeting customers. He was getting his face out there. This dealer continually comments that among his sales team, this salesman has the deepest knowledge of used equipment values.

We all know farmers who attend every auction. They seem to have a keen sense of what is trending and what items are selling for. They always seem to stop in to let you know your dealership's used unit is priced 30 percent higher than the last five similar units sold at auction.

The last couple of years have been tough for many dealerships in the large equipment product segments. Lots are not only full of used high-dollar items but new equipment has stacked up.

The < 100 HP market has made a comeback from the 2008 recession. Many dealerships that primarily sell into the < 100 HP category are now able to sell hay/forage tools. Their manufacturers are now producing hay tools or the dealership has signed a shortline hay tool contract.

I'm fearful some of the < 100 HP dealerships are not conditioned to spending enough time digging up used equipment FMV. If we pay too much for a tractor < 100 HP, we usually can work out of it without too much financial hurt.

Haying market

The FMV of hay/forage used equipment is a different story. Used hay/forage equipment values fluctuate for many reasons. This is a short but important list of reasons:

1. **Brand** – Some brands hold value better than others in different regions based on dealership presence or aftermarket support.
2. **Type/size** – Farming practices change, items become obsolete for no other reason than they do not farm with that item anymore. This can happen relatively fast.
3. **Usage** – Some hay tools are viewed by used equipment customers as a high wear item. There is significant deprecation in their first years.

Final thoughts

Dealers tell us they will just stop selling new. It's easy to stop selling new iron when you do not have new iron in the yard. If you have stock-aged new iron and the curtailments are draining your cash flow, there is a need to sell it. Unfortunately, with big-ticket items and many hay tools, there will likely be a trade.

Where are dealerships getting fair market value data? Where are dealerships discovering used equipment trends? How about at auction? I'll see you there because it's just good business. WED

Interpersonal vs. technical skills

Is one more teachable than the other?

By DR. LARRY COLE

"WE'RE GOING TO HIRE *people with good interpersonal skills because you can teach people the necessary technical skills, but you can't teach interpersonal skills."* I cringe every time I hear these words emerge from someone's mouth.

Stop and think about that statement for a moment. If you believe that you "can't" teach interpersonal skills, then you are really putting yourself into a box. If you think you "can't" then you "can't." As a matter of fact, as long as you think you "can't" you will never see you "can" because they are mutually exclusive categories. Try dropping a pencil while thinking about holding it. The only way to drop it is to change your thoughts.

Again I'm asking you to stop and think about the answer to this question, "Where did your interpersonal skills come from?"

Many years ago I left my mother's womb to burst into a world of negativity – bright lights, noise and a cold temperature. Then without warning a doctor slapped me. Later I learned the slap was to facilitate the breathing process. But, psychologically, the slap told us the "honeymoon is over" and this is a cruel world out here. So our first experiences were negative and I've interacted with numerous individuals who seemed to be stuck at that point in life.

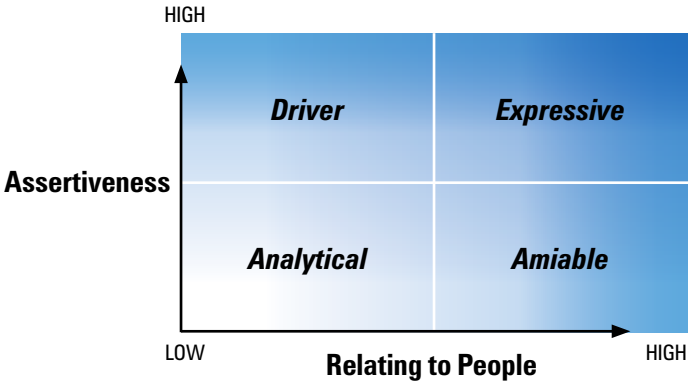
Fast forward to the adult world

More than likely our interpersonal skills represent a combination of genetics and a learning history. The point is we're capable of modifying our interpersonal skills.

The owner of a dealership, whom I'll call John, had the reputation of not being friendly. He rarely acknowledged employees upon entering the store, always appeared in a hurry and his employees wondered if his face ever experienced a smile. If you're one who believes that people can't be taught interpersonal skills, then poor John was doomed to have a negative impression upon his employees.

Without boring you with the details, I want you to know that John learned to use more effective interpersonal skills to the delight of his employees. As a sidebar, when was the last time you looked into the mirror to see the interpersonal skills you are modeling at your dealership?

These first 300 words bring us to the objective of this article – fitting personality types with job classifications. These classifications consider two psychological variables: (1) assertiveness and (2) relating to people. If you put these two into a matrix ranging from low to high you have the following combination:

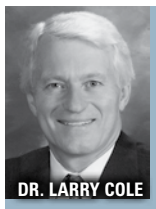


The length of this article prevents a comprehensive description of these styles so let's continue with our friendly dealer John as the example. We know that people with different social styles, work styles or interpersonal skills (whatever label you want to use) find it easier to smile and exhibit friendliness than others.

As you can see in the matrix, the *Expressive* is a combination of high assertiveness and relating to people, meaning this style has both the energy and interest to be extremely friendly. Sometimes, however, they talk too much.

Similarly, the *Amiable* is high on people, without the energy of the *Expressive*. An amiable person is friendly and enjoys personal relationships. They tend to be a bit more laid back.

Continued on page 18



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Interpersonal vs. technical skills

Continued from page 16

The *Driver* is high on assertiveness and has the energy to be friendly, but these types are so focused on getting results they often tend to be a bit blunt, which sometimes offends or intimidates.

The *Analytical* is lower on both characteristics – assertiveness and relating to people. This social style is content to be left alone to dot the i's and cross the t's.

Every dealership I've had the opportunity to work with wants employees who provide excellent customer service skills that are a combination of (1) immediate eye contact, (2) smile, (3) a friendly greeting (use name when possible), and (4) thank the customer for visiting the store. You can see from the matrix this combination of interpersonal skills is easier for either the *Expressive* or *Amiable*.

The question is whether an *Analytical* and *Driver* can learn these interpersonal skills? The answer is absolutely. They may have to work with more focus to put smiles on their faces, but those muscles won't break with use. They get stronger and then it's easier to smile.

Again, I won't bore you with details, but if this shy, introverted author can learn to speak with people anyone can. I'm living testimony that interpersonal skills can be modified and people are often surprised when they learn about the shy, introverted me.

The point is, if you put an *Analytical* person in a job that requires people skills you could be doing both of you an injustice if you assume excellent customer service skills are going to spontaneously pour from their body. In this instance, you'll need to put your coaching skills to work to help these types of employees be more extraverted.

Perhaps, I addressed a subject in this article that is actually beyond the scope of 1,000 words. I hear so many complaints about an employee's social style being mismatched with the job requirements that I needed to at least address the issue for the following reasons:

> … exhibit the interpersonal skills you want others to use in the dealership.

1. Please don't put yourself in the box of thinking that people can't learn more effective interpersonal skills. The fact is people can.
2. You may need to provide real-time coaching to provide the necessary assistance to help employees use the desired interpersonal skills.
3. I encourage you to learn more about social styles and more information is available through WEDA's Dealer Institute at www.westerneda.com or by calling the association office in Calgary, Alberta, at 800-661-2452, or Kansas City, Mo., at 800-762-5616. Knowledge of work styles can provide a great deal of information about working relationships.
4. In the spirit of a quote attributed to Gandhi but not authenticated, "Be the change you wish to see in this world." In other words (irrespective of who said it), exhibit the interpersonal skills you want others to use in the dealership. WED

Larry Cole, Ph.D., is a lead trainer for and consultant to the Western Equipment Dealers Association's Dealer Institute. He provides onsite training and public courses to improve business leadership effectiveness and internal and external customer service. Please send questions and/or comments to lcole@westerneda.com.

HERE'S WHAT YOU SOLD – Equipment Retail Sales in Units

U.S. – July 2016 Ag Tractor and Combine Report	July			Y-T-D July			July 2016
	2016	2015	% Chg	2016	2015	% Chg	Beginning Inventory
2WD < 40 HP	12,255	13,073	-6.3	82,662	75,265	9.8	72,887
2WD 40 < 100 HP	4,981	6,490	-23.3	32,913	35,067	-6.1	38,158
2WD 100+ HP	1,574	2,095	-24.9	11,353	14,946	-24.0	10,558
Total 2WD Farm Tractors	18,810	21,658	-13.1	126,928	125,278	1.3	121,603
Total 4WD Farm Tractors	120	232	-48.3	1,194	1,797	-33.6	755
Total Farm Tractors	18,930	21,890	-13.5	128,122	127,075	0.8	122,358
Self-Propelled Combines	428	511	-16.2	2,212	2,837	-22.0	1,054

Data provided by the Association of Equipment Manufacturers (AEM).

HOW TO REDUCE

What you can do to prevent being a victim

According to a CNBC report in 2014, nearly 8 percent of U.S. credit card holders were victims of credit card theft and fraud the previous year. That's nearly 2.5 million people. While that may not sound like a big number the dollar amount associated with credit card fraud is staggering.

In a study released last year by Javelin Strategy & Research, based in California, credit card fraud jumped to $11 billion in 2013 from $8 billion in 2012. Although consumers have some responsibility in covering fraudulent losses, merchants represent the most vulnerable targets.

Simply, the odds that merchants will become victims of fraud are overwhelming. But there are ways for merchants to reduce credit card fraud and it begins with how transactions are handled, especially those defined as "card not present," also known as telephone orders.

All card issuers confirm telephone orders increase the likelihood of fraud because merchants can't see the customer or the card. Since merchants have what hucksters and hackers want, merchants should do everything possible to secure the transaction.

So, how do you reduce the potential of being scammed out of merchandise and your money? Asking questions is the best place to start. Crooks are in a hurry and don't have time to answer even reasonable questions. If the card is hot, they can't be bothered with details… but details are what merchants need to get.

P2PE = protection

The first question you should be asking is, "What is my current payments' provider doing to secure my transactions?" The answer is a PCI-Certified Point-to-Point-Encryption solution, otherwise known as P2PE.

P2PE protects every transaction at the point of interaction by encrypting the keyed information with tokens. Once the irreversible tokens attach to the transaction, the data becomes completely useless to hackers; therefore, protects both you and your customers from the risk of a security breach. Once you have determined the security features of your payments' provider are up to par, you will have peace of mind knowing each transaction is secure.

But how do you decide each customer transaction is valid? That is when you start asking the customer questions *(see sidebar).*

Exploit weak points

You also can significantly reduce the potential for credit card fraud by taking steps to counter criminals' weak points. Often, just your increased scrutiny sends a message to thieves that your business is determined to protect itself against illegal activities.

Here are some other things to watch for when cards are not present:

- **First-time shopper** – criminals are always looking for new victims. Ask the caller if he or she has done business with you before.
- **Larger-than-normal orders** – stolen cards or account numbers have a limited life span, crooks need to maximize the size of their purchase.
- **Orders that include several of the same items** – multiples of the same item increases a criminal's profit.
- **Orders of big-ticket items** – these items have maximum resale value and therefore maximum profit potential.
- **Orders purchased domestically for foreign shipment** – there is no AVS for foreign addresses.

Processor assistance

Credit card issuers rely on processors to handle merchant transactions and it's in the best interests of processors to work with merchants to prevent fraud, whether it's telephone fraud or accepting cards from in-store customers. WED

Steps to take when the credit card is not present

1. Ask the caller how his or her name appears on the card.
2. Always ask for the expiration date of the card. An invalid or missing expiration date may indicate the customer does not have the card in hand.
3. Verify the cardholder's billing address, home address or both. Ask the cardholder for their day and evening telephone numbers, "in case there is a question." Orders with a "ship to" address that is different from the cardholder's billing address can be a danger sign.
4. Use AVS (Address Verification Service). AVS immediately and automatically compares the billing address given to you by your customer against the billing address on file with the credit card issuing bank. Visa, MasterCard, American Express and Discover all offer AVS with virtually identical features.
5. If you receive an authorization or approval code for the transaction, but still suspect fraud, don't ship the merchandise until you're satisfied. Ask for additional information, such as the name of the financial institution on the front of the card, driver's license, car make and model, license plate number, etc. You have the right to ask.

CardConnect is the recommended provider of processing solutions of the Western Equipment Dealers Association. Members who use CardConnect are encouraged to call Mike Davis to learn more about how to guard against fraud. For information, call 913-953-5302.

Improving the dealership Absorption Rate – Part 2

By DR. JIM WEBER

The previous column on "Improving the Dealership Absorption Rate" concluded by stating that for the average North American equipment dealer "the fastest way to increase the absorption rate would be to hire one or two additional technicians."

Additionally, the article stated that by improving the service department's recovery rate from a presumed 70% to a proposed 77.5%, and by increasing the labor rate from $95 an hour to $100 an hour, and by selling one dollar of parts for each one dollar of incremental labor sales at a gross margin of 29.50%, the absorption rate would increase from a paltry 69.00% to a very acceptable 95.00%. And, "this is before increasing part sales over the counter or reducing dealership expenses."

As previously written, the absorption rate can be defined as the percentage of the total dealership expenses that can be paid for from the gross margin dollars generated by the parts and service departments. As such, the formula for the absorption rate is illustrated below.

$$\text{Absorption Rate} = \frac{\text{Parts Gross Margin Dollars} + \text{Service Gross Margin Dollars}}{\text{Total Dealership Expenses}}$$

Using the above formula together with the data from the 2015 Cost of Doing Business Study, the average dealer's absorption rate was calculated as follow.

$$\text{Absorption Rate} = \frac{\$618{,}557 + \$616{,}579}{\$1{,}789{,}851}$$

$$\text{Absorption Rate} = \frac{\$1{,}235{,}136}{\$1{,}789{,}851}$$

$$\text{Absorption Rate} = 69.00\%$$

An absorption rate of sixty-nine percent means that parts and service gross margin dollars are covering, or paying for, sixty-nine percent of the dealership's total expenses. Or, looking at it from a different perspective, total dealership expenses exceed the parts and service gross margin dollars by a clearly determinable amount. Using the data from the 2015 Cost of Doing Business, the following table illustrates that total dealership expense dollars exceeded parts and service gross margin dollars by over $500,000.

	Total Dealership Expenses	$1,789,850
–	Parts and Service Gross Margin Dollars	$1,235,137
=	Expense Differential	$554,713

Thus, a dealer interested in achieving an ideal absorption rate of 100% can focus on either increasing parts and service gross margin dollars, as was explored in my previous column, or they can prudently and judiciously reduce expenses accordingly. While this article will look at the necessary steps to controlling dealership expenses, an astute dealer wouldn't do one or the other, but would rather embark upon establishing an operating plan that would combine the tactical activities of increasing margins while concomitantly reducing expenses.

From a macro perspective, dealers in the equipment industry should strive to keep their total dealership expenses under 15% of total dealership sales. But, as revenue dollars increase, expenses as a percent of sales should decrease. Even more instructive, as equipment sales increase proportionate to parts and service sales, expense dollars should (will) decrease as a percent of total sales. Thus, it should be no surprise that during the mega years of 2012-2014, expenses dollars as a percent of sales averaged 12.4%, compared to 15.7% for the years 2007-2009, when total dealership sales were 34.2% less than they were a few years later.

The following table illustrates the impact of wholegood sales and total dealership sales on total dealership expenses as a percent of sales for the average North American Dealer for the years of 2007-2009 and 2012-2014.

	2007 - 2009	2012 - 2014
Average Annual New/Used Sales	$6,980,836	$11,281,289
Average Annual New/Used Sales Mix	73.7%	78.4%
Average Total Dealership Sales	$9,467,044	$14,388,237
Average Total Dealership Expenses	$1,490,532	$1,785,420
Average Annual Expenses to Sales Percent	15.7%	12.4%

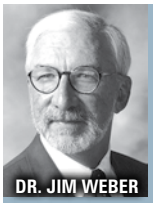
Eighty seven percent of the fifty two percent total dealership sales increase that occurred for the average dealer between 2007-2009 and 2012-2014 were attributable to new and used equipment sales. For those same periods, dealership expenses increased by nearly 20%. As a result, total dealership expenses as a percent of sales dropped precipitously. That's the good news! But the bad news is this could also be a harbinger of hard times ahead if dealers don't act accordingly.

With wholegood sales down 25-50% in many cash crop markets during 2015 and expected to be down another 20-40% in 2016, reducing expenses will not only be about improving the absorption rate, but for many dealers may also be the difference between success or failure.

So what's to be done? With payroll and corresponding benefits accounting for 55-65% of total dealership expenses, it will be impossible to get expenses under control without carefully and dispassionately analyzing each and every payroll expense. To start with, the necessary process should be put in place immediately to terminate any employee with a negative attitude. This includes relatives or long term employees. This is not the time for nepotism or sentimentality, but rather a time for action.

Next, each department's payroll should be systematically analyzed. Sales salaries and commissions should not exceed 25% of the gross margin dollars. For example, with new and used equipment sales of $7M and a new and used gross margin of 6%, total sales compensation should not exceed $105,000. This is regardless of the type of sales compensation system or the number of sales personnel.

For the past year, I have been questioned repeatedly about what a dealer should do with a salesperson who wants his compensation changed because he/she can no longer make the kind of money that was being made during "the good years." Of course, the answer is simple: stand firm or eliminate the employee. Any such employee request (or demand?) should be a clear indication that such an employee is



DR. JIM WEBER has been a management consultant to the agricultural, construction and outdoor power equipment industries for over 30 years.

> "Effective leadership is putting first things first. Effective management is discipline, carrying it out."
>
> – Stephen Covey

an "order taker" and was only successful during "the good years" because the market let him/her be successful. Such an employee move could be followed up with hiring an aggressive salesperson, or sales trainee, willing to make customer contact in a down market; or, by expanding the territory of existing sales personnel, provided existing sales personnel have the necessary zeal and passion to call on existing accounts as well as prospective competitive end-users. More than ever, sales will be a function of calls and repeat calls.

Next, the parts department employee wages should be evaluated. Parts department wages, not including benefits, should not exceed 25% of the total parts department gross margin dollars. Thus, for a parts department generating $2M in sales with a 29.50% gross margin, wages should not exceed $147,500. These wages include those of the parts manager, counter personnel, shipping and receiving personnel, outside parts representative, and any other parts personnel whose wages may be split between other departments.

Another way of looking at this metric would be to look at the total part sales per part employee. The higher the sales per employee, the lower the cost per employee. Thus, dealerships averaging more than $600,000 in part sales per employee will normally have compensation at or below 25% of the parts gross margin while dealerships averaging less than $500,000 in part sales per employee will generally see their parts wages approach, or exceed, 30% of the parts gross margin dollars. And this is before the cost of benefits have been factored in!

Thus, the alternatives for any dealership whose parts wages exceed 25% of the parts gross margin should be fairly evident. These alternatives are as follow:

1. **Reduce wages.** Which has generally not proven to be a great motivator!!
2. **Increase the parts gross margin percent.** This will require a parts manager to raise parts prices, which may prove to be disastrous in a price competitive market; or to "buy" better provided he/she has that capability.
3. **Increase sales at the prevailing gross margin percent.** This is generally the alternative that most parts managers will select even though they have no marketing plan or the marketing where-with-all to do so. Remember, "hope is not a strategy."
4. **Terminate as many employees as necessary to bring the parts compensation into compliance.**

Concerning service department wages, two benchmarks should be followed. First, service technician wages and benefits should not exceed 40% of the total labor sales. Note, this benchmark has the following provisos. This benchmark includes employee benefits. For U.S. dealers this could range anywhere from 25% to 40% of employee wages while Canadian dealers will generally have benefits equaling 15% to 30% of employee wages. The difference being primarily the cost of health insurance coverage. The next proviso pertaining to this benchmark is that only "wrench-pulling" technicians are included. Service management or clean-up employees are not included in this calculation. The third proviso that needs to be remembered is that this calculation is based only on labor sales and does not include ancillary sales such as shop supplies, outside labor and material charges, environmental charges or machine earnings.

For illustration purposes, let's say that a dealership will generate $1M in total service sales during 2016. Let's further assume that of those sales, 90%, or $900,000, will be labor sales. Given those projections, a dealer knows that he cannot pay out more than $360,000 in total wages and benefits to his "wrench pulling" technicians. If we further assume that the employee benefit package is worth 27.5% of the employee wages, than the dealer now knows that he can pay no more than $282,350 in wages. Again, this is not about the number of technicians, but rather the cost of the technicians and their corresponding output.

Let's say that given the sales dollars above, the dealer is presently paying out $353,000 in wages. With benefits, the total cost of the "wrench pulling" technicians is $450,000, or 50% of the labor sales. What's to be done?

1. **Do nothing and ensure mediocrity** at best and a service department loss at worst.
2. **Reduce all technician wages.** See earlier comment concerning this alternative.
3. **Increase labor sales.** This can be done by increasing the recovery rate and/or increasing the labor rate.
4. **Aggressively market service labor.** This will require a "modern day" service manager oriented toward marketing and communications rather than the machine mechanics.
5. **Terminate as many employees as necessary to bring the service labor cost into compliance.** Given the above example, wages would have to be reduced by $70,350, or one to two employees.

The second service department labor metric pertains to the cost of the service management. The benchmark for this metric is that the total wages and benefits for the service management should not exceed 10% of the total service sales. Note, this metric involves total service sales and not just labor sales. Thus, service management is given credit for all ancillary charges. Additionally, this calculation should include all managerial personnel such as assistant manager, warranty administrator, service clerk, etc. Any personnel whose work load is split between service management and another service department position or another dealership function should only have his/her portion of management wages included.

For example, if the service department had an employee who split his time between being a shop foreman and a "wrench pulling" technician, then the wages paid while being a foreman would be included in the service management calculation while wages paid as a technician would be included in the service technician cost calculation. Using the above numbers, management payout should not exceed $100,000 in total wages and benefits. If in fact service management wages and benefits exceed $100,000, then the dealer should make the appropriate management decision.

Several other expenses will have an immediate impact on the dealership's absorption rate as well as operational profits. In the year 2016, there is no reason for a dealership to incur a net freight expense or a net shop supply expense. Concerning both of these expenses, a credit should be the result. In other words, the parts department should collect more in freight revenue than they incur in freight costs while the service department should collect more in shop supply charges than what the shop supplies cost.

The final expense that should be closely monitored is the total interest expense as a percent of total dealership sales. While total interest should not exceed 1% of total dealership sales, floor plan interest should not exceed .5% of total dealership sales. Thus for a $10M dealership, floor plan interest should never exceed $50,000. While my next column will address inventory management in detail, for the purposes of this article, the dealer has three options. First, purge all interest bearing equipment; second, do not stock any equipment that cannot be sold within the free floor-planning period; and third, if possible, move all floor planning from manufacturers who are charging usurious interest rates compared to prevailing market rates offered by other lending institutions.

It could be another eighteen to twenty-four months before dealers in the agricultural market see any kind of positive demand for the products that they are presently marketing. Because of capitalization concerns, as measured by a dealership's financial leverage ratio, financial survival for many dealers may be predicated on controlling expenses and managing inventory, both of which will require the discipline to do the right thing. And, as Stephen Covey has written: "Effective leadership is putting first things first. Effective management is discipline, carrying it out." So the question becomes: Do you have the discipline to be successful? WED

Random Drug Testing – Why It's Important

By JERRY LEEMKUIL

The fact of the matter is that drugs and alcohol do not belong in the workplace. Employees who abuse drugs and alcohol can create significant safety and health hazards. Negative consequences include decreased productivity, poor employee morale, and increased costs associated with property damage, workers' compensation, and health care.

Employees who abuse drugs and alcohol fare much worse when compared with employees who do not.

Substance abusers are:

- **3.6 times more likely to be involved in on-the-job accidents, and 5 times more likely to injure themselves or another in the process,**
- **5 times more likely to file workers' compensation claims,**
- **10 times more likely to miss work, and**
- **33 percent less productive[1]**

While there are many tools available to help deter this problem, Federated has found that the most effective programs include random drug and alcohol testing.

Random employee testing can help keep your work environment safe and productive.

Random testing is performed on an unannounced, unpredictable basis. Employees are placed in a testing pool from which an arbitrary selection is made. If an employee is tempted to use drugs, but knows he or she may be tested at any time, the temptation is reduced.

To help our clients develop and implement a drug- and alcohol-free workplace program, Federated has partnered with vendors whose services are available at a reduced price to Federated clients through Federated's Shield Network[SM]. Contact your local Federated representative for more details. WED

[1] *"Why Worry About Drugs and Alcohol in the Workplace?" Facts for Employers*, American Council for Drug Education

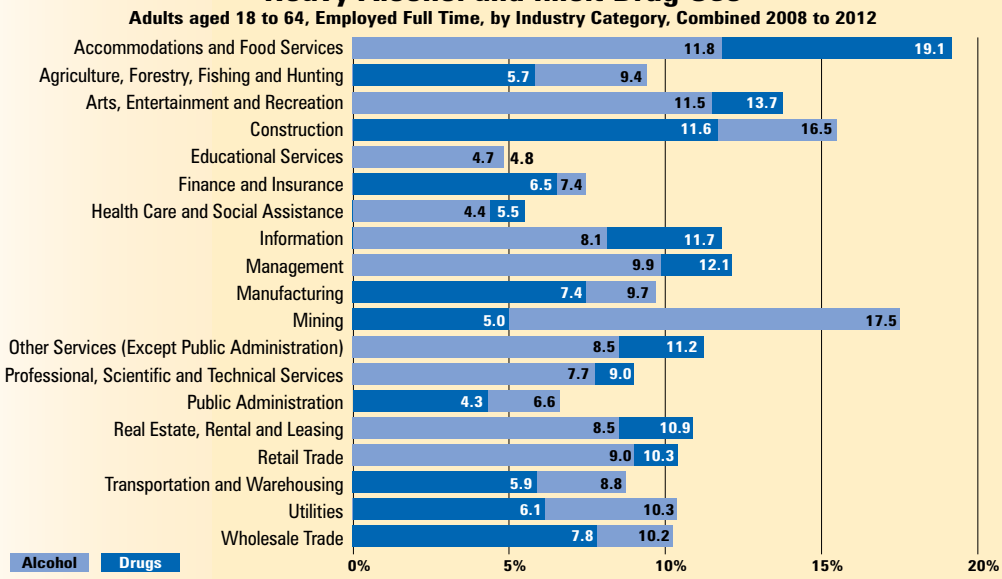
The faces of TODAY'S workplace

Research by the National Institute on Drug Abuse and the federal Substance Abuse and Mental Health Services Administration provides statistical evidence of drug and alcohol abuse among today's workers. Here are a few eye-popping stats about workplace drug and alcohol use:

- **7 percent** of workers have consumed alcohol at least once during the work day
- **8 percent** of people in the United States have used drugs within a month
- **19 percent** of people killed on the job test positive for either alcohol or drugs or both
- **75 percent** of drug users are employed
- **60 percent** work for small companies, defined as businesses with fewer than 500 employees
- **300 percent** higher medical costs

Additional sources in this article were provided by the University of Buffalo, *Insurance Journal* and *EHS Today*.

Link SAMHSA CSBSQ report/charts: http://www.samhsa.gov/data/sites/default/files/report_1959/ShortReport-1959.pdf



Substance Abuse and Mental Health Services Administration, CBHSQ Report, 2015

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ESOPs from a seller's vantage point

Using the ESOP to maximize proceeds and flexibility in succession planning

By LANCE FORMWALT

In my prior article, I explained the basics of an employee stock ownership plan (ESOP) and the role it can play in your succession planning. An ESOP can be a powerful succession planning tool because it provides key advantages for three groups that are part of any dealership succession plan: sellers, the employees and management team, and manufacturers. In this month's article, I will drill down further on ESOP advantages from the vantage point of the seller.

Challenges of selling to third parties

If you are selling your dealership, you will run into many challenges along the way. Selling a dealership is not a simple process. Among other issues, three key issues near and dear to your heart often stand in the way of a deal: (1) can I find a suitable buyer?, (2) will the buyer pay me a fair price?, and (3) is the deal structured so it sufficiently minimizes how much I'm paying Uncle Sam? An ESOP can help solve these issues:

• **Finding a Buyer.** It can be difficult to find a buyer. Issues like timing, geography, financial resources and manufacturer concerns often get in the way. If nothing else, these issues will limit your options to a relatively small pool of potential buyers and identifying and narrowing down that pool of potential buyers can be a time-consuming, trial and error process. With an ESOP, there is always a buyer because you make the decision to form the ESOP trust/buyer.

• **Obtaining a Fair Price.** I spend most of my time helping dealers buy, sell or merge dealerships or implement succession plans through ownership changes. During that time, I have seen wild fluctuations in prices that buyers are willing to pay for a dealership. Even though it is possible for you to come up with an objective fair market value for your business based on its performance, a transaction involves other variables: the number of potential buyers, the brands you carry, and the current good standing of your buyers with your key manufacturers are just a few. An ESOP removes this uncertainty of third-party factors beyond your control and allows you to obtain a price through a valuation primarily driven by your dealership's performance.

• **Minimizing Tax Consequences.** Transactions with third parties can sometimes involve "win-win" situations when it comes to tax consequences. But for the most part, what is best for the buyer is not what is best for the seller. The best example of this is the decision on whether the transaction should involve the sale of stock or the sale of assets. A buyer wants to buy assets because the assets can be depreciated over time and results in tax benefits. A seller prefers to sell stock to get the better capital gains tax rates. An ESOP eliminates this issue because the only potential option is a stock sale and therefore preserves a good tax benefit for the selling dealer.

Succession planning flexibility

ESOPs can provide a solution to dealers not looking to sell their entire business. You can sell any percentage of ownership to an ESOP. This allows owners controlled by a single family to sell ownership and create liquidity over time. It also allows diverse ownership groups to be bought out at different stages. When considering these types of transactions involving ESOPs, several important factors should be noted:

• **Minority Interest Discount.** Because an ESOP will pay for an ownership interest based on a fair market value appraisal, you should be aware the appraiser will often assign a discount for the sale of a minority interest. However, there are a couple of factors that can reduce the effect of this. First, an appraiser may not assign a discount if the sale of stock is accompanied by an option for the ESOP trust to purchase a controlling ownership interest (e.g., 51 percent) in the future. Second, if a discount is assigned to the sale of a minority interest, a seller could also expect a "control premium" to be assigned to the second stage transaction when the rest of the ownership is sold.

• **Maintaining Control.** After an ESOP is formed, an owner that retains a partial ownership interest in the dealership may serve as the trustee for the ESOP and continue to be in charge of the day to day operations.

• **Tax-Advantaged Funding.** When the owners are bought out by the dealership or other owners, this is usually done through seller-financing that often

Continued on page 26

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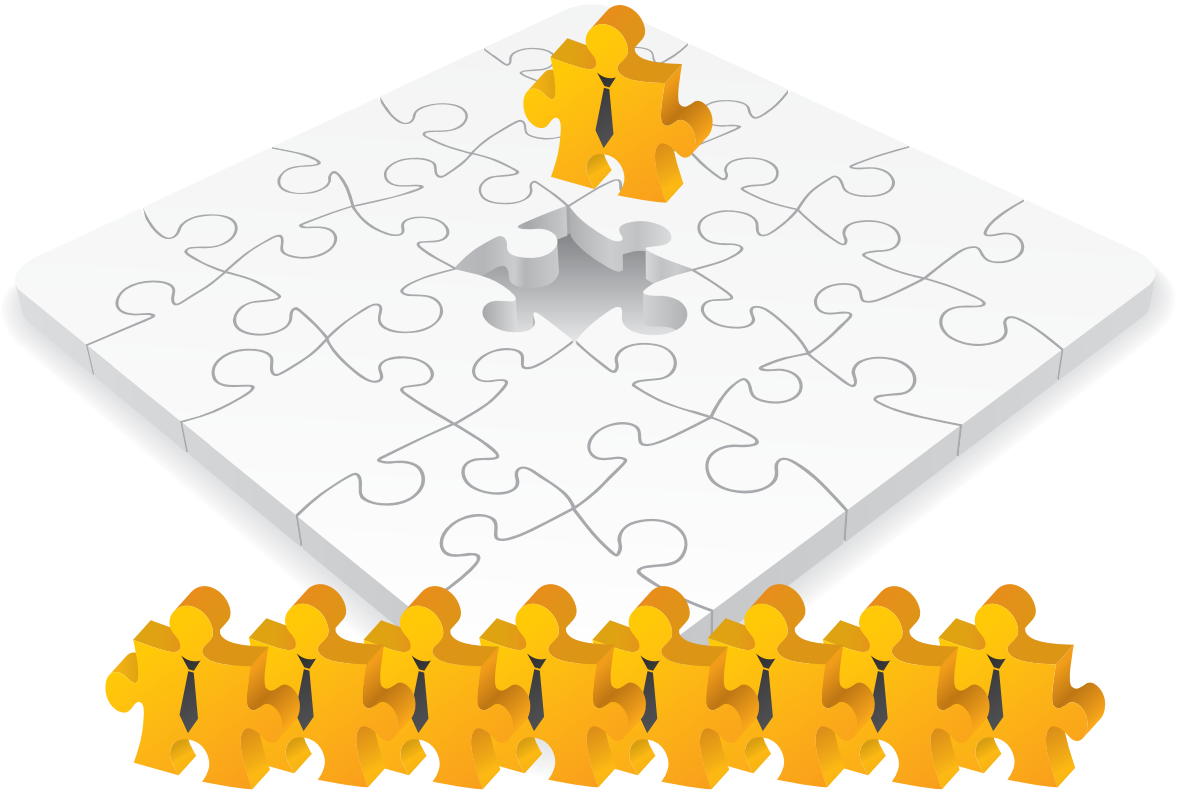

Filling the need for technicians with new scholarship programs

HELP US PUT THE PIECES TOGETHER

The *Western Equipment Dealers Association (WEDA)* has created a foundation (WEDF) to help members get one step closer to filling technician vacancies. The Foundation's mission is to continue our support for the WEDA Industrial and Farm Equipment Technician Program at OSU Institute of Technology, and to establish scholarship programs at post-secondary education institutions for deserving students and member employees interested in pursuing a degree program relative to the equipment industry. You can help. Please call today with your support.

MAKE A DONATION

Please contact Olivia Holcombe at **800-762-5616.**

WESTERN Equipment Dealers Foundation

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ESOPs from a seller's vantage point

Continued from page 24

may be subordinated to other lenders, including the manufacturer-provided financing. A sale to an ESOP can be funded the same way with one very important benefit: income allocated to an ESOP will be tax-exempt (if the dealership is an S corporation) or the bulk of the principal payments (in addition to interest) will be tax deductible to the ESOP (if the dealership is a C corporation). These tax benefits can make payment of a note from an ESOP a more certain proposition than regular seller-financing and also can support the payment of a higher interest rate (e.g., 8-10 percent in today's market).

Illustrating the power of tax deferral

If your dealership is a C corporation (or converts to a C corporation right before the sale to an ESOP), you can elect to defer paying tax on all or a portion of the proceeds from the sale as long as at least 30 percent of the dealership's stock is owned by the ESOP trust (including prior sales). This deferral is very similar to a 1031 exchange involving real estate. The key to the deferral is that you must purchase "qualifying replacement property" (e.g., public company stock) within 12 months after the sale. As long as you maintain that investment or subsequent replacement investments (assuming the right investment structure is in place), you can defer paying capital gains taxes indefinitely with the possibility of avoiding the payment of any capital gains taxes if you hold the investments until your death.

The chart opposite illustrates the power of this difference. Even though a stock sale to a third party typically generates the best tax consequence for a seller, taking advantage of the deferral option available through an ESOP sale as an estate planning strategy can result in a very large upside. In the example, a sale of a $15,000,000 dealership through an ESOP could leave you with 40 percent more proceeds than a sale of stock to a third party.

ESOP vs Traditional Sale

Assuming sale of company valued at $15M with $3M Basis

Sale with ESOP Rollover		Stock Sale	
Sale Price	$15,000,000	Sale Price	$15,000,000
		Federal Tax	$ 3,570,000
		State Tax	$ 750,000
Total	$15,000,000	Total	$10,680,000
Appreciation of Sales Proceeds*	$ 3,000,000	Appreciation of Sales Proceeds*	$ 2,136,000
Total Proceeds	**$18,000,000**	**Total Proceeds**	**$12,816,000**

*Assuming 20 percent of after tax growth
Fed Capital Gains Rate of 20 percent + 3.8 percent Medicare
State Tax Rate of 5 percent
Assumes $3M Tax Basis

Conclusion

Even though an ESOP may not work for everyone, in the right situations, an ESOP can offer significant advantages for the seller of a dealership. Due to these potential advantages, it makes sense to at least consider an ESOP when evaluating options as part of your succession planning. WED.

Lance Formwalt is the leader of the Equipment Dealer Group at Seigfreid Bingham, P.C. The firm also serves as legal counsel to the Western Equipment Dealers Association (WEDA). Lance may be contacted at lancef@sb-kc.com or 816-265-4106. Also see www.sb-kc.com.

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