

WESTERN Equipment Dealer

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SUCCESSFUL DEALERS

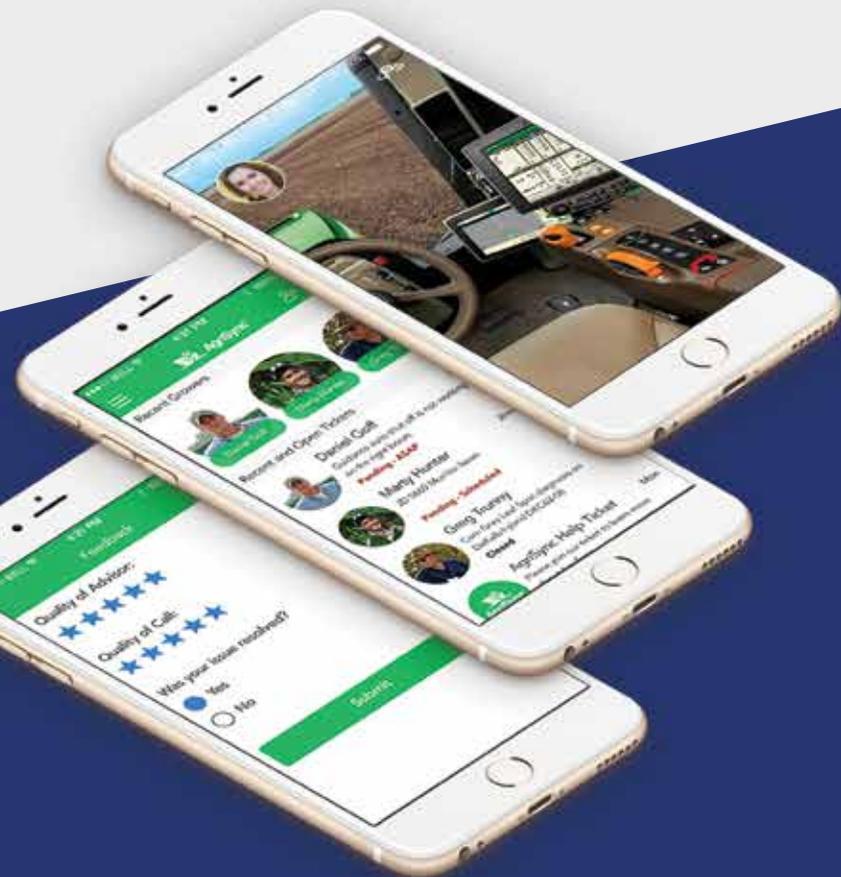


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Kirby-Smith
captures
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(L) and Ryan Graham (R) are checking
engine hydraulics on this tractor.
Campbell is sponsored by KanEquip;
Graham by Derr Equipment.
Photo by Rubria Ireland, OSUIT



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OSU INSTITUTE OF TECHNOLOGY

Students run diagnostics on hydraulics (L) and engine (R).



Hands-on involvement steers technician program

Association plays role in dealership technician needs

By LYNN GROOMS

THE OKLAHOMA STATE UNIVERSITY Institute of Technology (OSUIT) is hands-on... not only do students there receive hands-on training in equipment technology, but the dealers who sponsor them also steer the curriculum of the technician training program in the school's School of Diesel and Heavy Equipment.

The technician training program started at the Okmulgee, Okla., institution in 2004 when members of the SouthWestern Association – now the Western Equipment Dealers Association – recognized a need for more skilled technicians. John Martin, owner of Stewart Martin Inc., a Kubota dealership based in Okmulgee, was president of the association's board at the time. His son, David, had graduated from the diesel school in 1983 before returning to manage the family dealership's service division.

John had seen how David had received practical training and how the diesel industry was closely involved in the program's curriculum. John told fellow SouthWestern Association members that they could support a similar training program for budding technicians in the farm equipment and heavy construction equipment industries.

The association's board agreed and soon the technician training program at OSUIT was born. Since 2004, about 150 students have graduated from the program with an associate in applied science de-

gree in industrial and farm equipment. The program began with a dealer advisory board to guide the curriculum. A dealer board continues to this day, with members of the Western Equipment Dealers Association who sponsor students providing direction and feedback. **Dealer participation ensures that the school stays current with the most recent technology advances in agricultural and construction equipment.**

David Martin, who had graduated from the OSUIT diesel technology school, now serves as one of the equipment training program's two instructors.

David teaches hydraulics, powertrain and safety principles while Tony Redington concentrates on electrical systems, precision agriculture and harvesting equipment principles.

Students in the two-year technician training program spend half their time on campus and the other half at their sponsoring dealership.

Van Keppel, a heavy equipment dealership based in Tulsa, Okla., has sponsored about 10 students through OSUIT since 2004. Van Keppel has locations in several states and employs about 100 technicians company-wide.

"We repair all of the equipment we sell and rent so we have a lot of technicians," says Brian Loderhose, vice president of product support for Van Keppel.

One of the reasons that Van Keppel began sponsoring students is that it needed a better and faster way to train technicians, Loderhose said. And when the dealership took into account the costs of training technicians itself and keeping pace with rapid changes in computer technologies, the OSUIT program was more practical, he added.



LYNN GROOMS

is an agricultural journalist living in Mt. Horeb, Wis.



The lab at OSUIT features the latest equipment used on farms and construction sites.

Photos by Rubria Ireland, OSUIT

“We are professional technicians who have had experience and want to share our knowledge.”

David Martin, OSUIT faculty instructor

Van Keppel hires prospective technicians as soon as they graduate from high school. Those individuals work at the dealership during the summer and then attend school for an eight-week period. Then they work at the dealership again before attending another eight-week program at school. The alternating school and work schedule continues over the two-year degree program's period.

At school, the students do everything together – they will attend a diesel class in the morning followed by general education classes – history, mathematics and technical writing, for example. Students can help each other in areas where one person may have more strengths, Loderhose said.

P&K Equipment Inc., a John Deere dealership, with 10 stores in Oklahoma and nine stores in Iowa, also has sponsored several students at OSUIT for several years. The company employs about 100 technicians, about 10 percent of whom have attended OSUIT.

“We’re hoping to have more students in the program... OSUIT is close to home for a lot of our kids,” says Scott Eisenhauer, general manager of P&K Equipment.

The technician training program exposes students to a wide range of brands and pieces of equipment. How the students perform in school also is a good gauge of how they will work as technicians for the dealership, Eisenhauer says.

Because one of its stores is within 50 miles of OSUIT, P&K also donates tools and equipment upon which students can work and learn.

“At OSUIT, students get exposure to a broad range of products,” Eisenhauer says. “The main point is that they graduate with the basics, and the skills for thoughtfully diagnosing equipment.”

P&K Equipment recruits high school graduates, but also has recruited other people of different ages with varying skills. And most of



OSUIT President Dr. Bill Path speaks to members of the program's advisory committee, which is made up of dealers, university faculty members and instructors and staff from the Western Equipment Dealers Association.

Photo by Sara Plummer, OSUIT Marketing & Communications

the students that the dealership has sponsored at OSUIT go to work for P&K Equipment.

“We always have someone from our dealership participate on the Western Equipment Dealer's Association dealer advisory group,” Eisenhauer said. “OSUIT is a key component to training of our service group.”

Derr Equipment, a Case IH dealership, based in Savannah, Mo., currently has two students at OSUIT. It also has sent students there for several years.

Brad Derr, owner of Derr Equipment, says that one of the things he likes about the school's split schedule is that technicians in training can return to the dealership during each season to get a taste of what it's really like working in a dealership through all four seasons.

In addition to technical training, students at OSUIT also learn practical information about the business end of a dealership – overhead costs, labor costs and so on, Derr said. “OSUIT shows them what to expect in real life; that's huge,” Derr adds.

Like other sponsoring dealers, Derr Equipment has donated tools or equipment for the students to study at OSUIT.

Continued on page 6



WED Feature



Continued from page 5

For information about OSUIT, call Tag Webb at 918-232-2830 or write to twebb@westerneda.com.

“We’ll send broken wiring, for example, so they can determine where the failure is,” Derr says.

David Martin says that through sponsoring dealers, OSUIT has formed partnerships with manufacturers, which provide equipment, tools and product manuals for training purposes.

“Because of the Western Equipment Dealers Association, we have access to the latest and greatest equipment,” Martin says. “This is important because technology is changing so fast.”

Terryl Lindsey, dean of the School of Diesel and Heavy Equipment at OSUIT, says that the dealer advisory board keeps the technician training program fresh – within six months of the latest advances in technology. And because of donations, the school can afford to bring in the newest equipment and tools.

“At any one time, students can work on 10 to 12 different machines,” Lindsey said.

That can mean hands-on exposure to an excavator, 4-wheel drive tractor, combine and a wide array of other equipment.

“We have dynamic feedback from dealers,” Lindsey adds.

Another strength of the program is that OSUIT’s faculty comes from the equipment industry.

“We are professional technicians who have had experience and want to share our knowledge,” Martin says.

Since 2004, students have come to OSUIT from seven states served by the Western Equipment Dealers Association. While there haven’t been any women in the technician training program, this may soon change as more women are now entering the automotive, diesel and related industries. There are three female prospects for this fall term, Martin says.

“We want dealers to keep sending students to fill the jobs they need,” Martin says.

There is always a need for qualified technicians, says Tag Webb, regional manager for the Western Equipment Dealers Association.

OSU INSTITUTE OF TECHNOLOGY



OSUIT is presented with a check from an association-organized golf tournament and fundraiser. Pictured from left to right are Tag Webb, regional manager, Western Equipment Dealers Association; Tony Redington, OSUIT faculty instructor; David Martin, OSUIT faculty instructor; Terryl Lindsey, dean of the School of Diesel and Heavy Equipment at OSUIT; Glenn Zanotti, assistant director of development OSU Foundation; and Dr. Bill R. Path, president, OSUIT.

Photo by Sara Plummer, OSUIT Marketing & Communications

He welcomes WEDA members to learn more about the OSUIT program by participating in one of the two meetings the dealer advisory group holds each year with the school’s instructors. The next meeting will be held in April and recruiting is taking place now for the next class of OSUIT technicians.

Dealer advisory meetings are held each spring and fall and are generally attended by the service managers of dealerships so that the managers can provide input as to what specific training programs are needed. The dealers also can suggest changes to the program, which can be implemented almost immediately, Webb says.

Most students have a dealership sponsoring them, but WEDA can help match dealers with students if necessary. WEDA also sponsors an annual golf tournament to raise funds for the OSUIT program. The event has raised about \$15,000 annually for the past seven years. This money is used for classroom materials and other needs identified by OSUIT. **WED**

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

| U.S. – January 2017 Ag Tractor and Combine Report | January | | | Y-T-D January | | | January 2017 |
|--|---------|--------|-------|---------------|--------|-------|---------------------|
| | 2017 | 2016 | % Chg | 2017 | 2016 | % Chg | Beginning Inventory |
| 2WD < 40 HP | 6,091 | 5,353 | 13.8 | 6,091 | 5,353 | 13.8 | 73,800 |
| 2WD 40 < 100 HP | 3,451 | 3,831 | -9.9 | 3,451 | 3,831 | -9.9 | 35,410 |
| 2WD 100+ HP | 1,200 | 1,696 | -29.2 | 1,200 | 1,696 | -29.2 | 9,563 |
| Total 2WD Farm Tractors | 10,742 | 10,880 | -1.3 | 10,742 | 10,880 | -1.3 | 118,773 |
| Total 4WD Farm Tractors | 109 | 176 | -38.1 | 109 | 176 | -38.1 | 706 |
| Total Farm Tractors | 10,851 | 11,056 | -1.9 | 10,851 | 11,056 | -1.9 | 119,479 |
| Self-Propelled Combines | 205 | 418 | -51.0 | 205 | 418 | -51.0 | 733 |

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

A red tractor with a combine harvester attachment is shown in a field of harvested crops. The tractor is the central focus, with its large rear wheel and smaller front wheel visible. The background shows a vast field under a clear sky.

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Kirby-Smith captures opportunities

By LYNN GROOMS

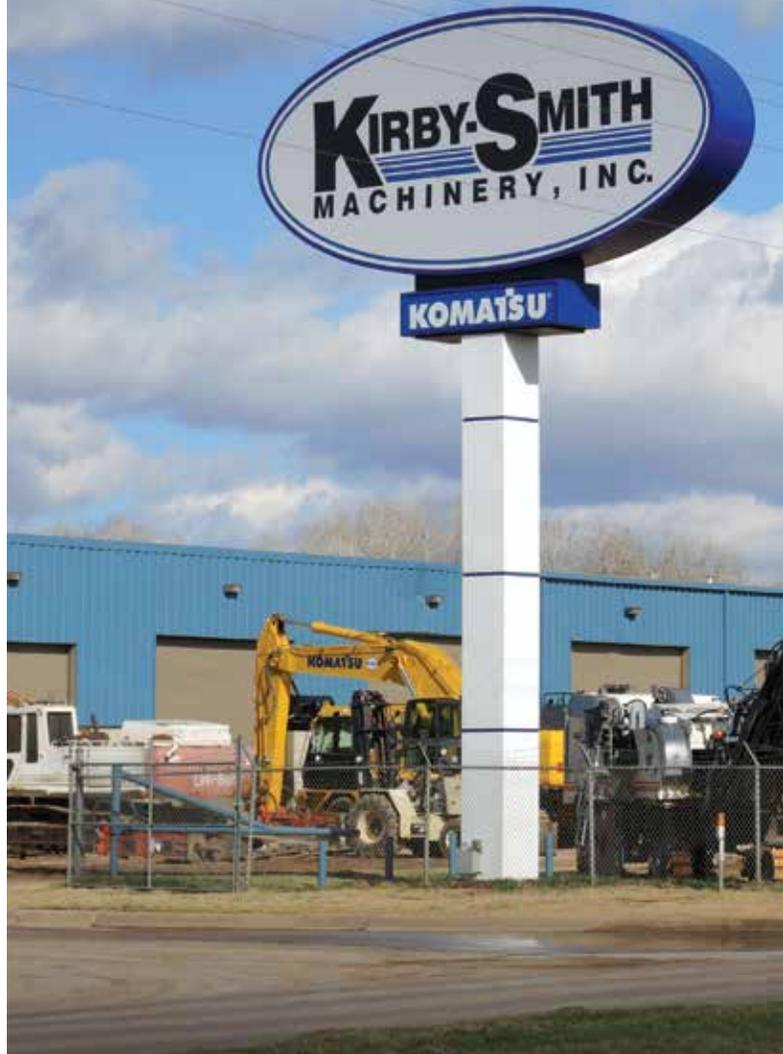
KEEPING PACE with its many markets is Kirby-Smith Machinery's greatest challenge, but it also presents the greatest opportunities, says Jeff Weller, the company's executive vice president and chief operating officer.

Having 10 locations gives us access to so many markets where our equipment can make a huge economic impact for customers," Weller says. "That's why we're focused on growing our pipeline, crane and paving divisions. We can specialize as needed to be as effective as possible."

When the company expanded its pipeline division, for example, it recognized that customers in that industry needed versatile crawler carriers that were easy to maintain, Weller says. So in fall 2016, Kirby-Smith became the dealer for Teramac crawler carriers in Oklahoma.

In addition to expanding business areas, the Oklahoma City-based company is in the process of adding facilities in north Texas and Kansas City, and plans to improve existing facilities in Lubbock, Texas. The addition of the Kansas City facility will be completed in the first quarter of this year, and the north Texas and Lubbock sites are expected to be completed in 2018.

Kirby-Smith Machinery is expanding and upgrading about the same time that Texas is upgrading its infrastructure. In the last three years, the state's voters passed two amendments related to highway funding. Proposition 1 authorized annual disbursements from the state's oil and gas production tax collections to the state-highway fund for transportation and infrastructure projects across Texas. Proposition 7 will allocate \$2.5 billion of revenue annually from sales taxes to the state-highway fund starting in 2018. Kirby-Smith's construction equipment presence in Texas should prove advantageous.



Kirby-Smith Corporate Headquarters, Oklahoma City, Okla.

In addition, the Trump administration is reportedly preparing a list of targeted infrastructure projects, including a 240-mile high speed rail system between Houston and Dallas-Ft. Worth. The preliminary list also includes a new terminal at the Kansas City airport, according to "McClatchy DC."

Owner instills customer service philosophy

Ed Kirby started Kirby-Smith Machinery in 1983. He started with a focus on used equipment, but soon added new equipment. In 1987, he acquired Advanced Machinery, which sold Komatsu equipment throughout Oklahoma.

His company has grown from about 30 employees in the 1980s to 400 employees today.

"Ed is still front and center, but he's a very humble person," Weller says of Kirby. "He continues to show care and compassion for employees and customers."

Weller attributes the company's success to Kirby and his customer service philosophy.

"The first step is listening to your customers," Weller says. "We do that first and then act accordingly. Our goal is to create and maintain lifetime customers and be their first choice."



LYNN GROOMS

is an agricultural journalist living in Mt. Horeb, Wis.



Kirby-Smith Machinery Inc.

Established: 1983

Locations: 10 locations, serving the entire state of Oklahoma, western and northern Texas, as well as Kansas City, St. Louis, and parts of western Illinois

Owner: Ed Kirby

Employees: About 400 employees across 10 locations

Major lines: Komatsu heavy construction equipment; Wirtgen Group road construction, paving and minerals; Terramac crawler carriers; Manitowoc Group cranes

Website: www.kirby-smith.com



Jeff Weller, chief operating officer & executive vice president, Kirby-Smith Machinery, Inc.

Photos provided by Kirby-Smith Machinery

Our mission is:

- To professionally serve and personally care about our customers
- To rapidly respond to customers
- To provide an “exceptional and easy-to-do business” customer experience
- To provide solutions, not excuses, to customers

Weller adds, “This is an over-used phrase but we believe in consistently delivering customer care that exceeds expectations. When we do make a mistake, we offer a heartfelt apology and make things right.”

Kirby-Smith Machinery also works to have the right equipment for customers’ required applications and its rental division has one of the largest rental fleets in its territory, Weller says. In addition, the company aims to reduce customers’ downtime by keeping a comprehensive parts inventory stocked and ready, Weller adds.

Continued on page 10



▲ Kirby-Smith Machinery operates a fleet of vehicles to field service for its customers. Fast and efficient parts service is hallmark of Kirby-Smith Machinery. ▼

Photos provided by Kirby-Smith Machinery

Kirby-Smith Machinery, Inc. has grown from about 30 employees in the 1980s to 400 employees today.

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“We also pride ourselves on well-trained service technicians,” he says. “We hope the message is clear that we are 100 percent committed to our customers’ success.”

Kirby-Smith Machinery employs Bill Sinkinson, a technician recruiter and retention specialist, who served in the U.S. Marine Corps. He continues to serve in the Marine Corps Reserve and has hired some Marine veterans as employees. The company offers internships and tuition assistance at Texas State Technical College and the Oklahoma State University Institute of Technology.

Kirby-Smith Machinery also has established a program in which new hires are paired with more seasoned technicians. The mentorship program has helped reduce workplace injuries and also promotes life skills, Weller says.

Planned infrastructure projects in its territories can help Kirby-Smith Machinery take advantages of new opportunities. But those opportunities also bring challenges.

“The biggest challenge keeping up with so many different markets is that needs are constantly changing, Weller says. “Equipment companies like Kirby-Smith must be big enough for customers to see the resources we can offer, but also small enough for them to realize we’re right there in the trenches with them.” **WED**



Kirby-Smith Machinery is known for having the largest inventory and most efficient parts service in the region.

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

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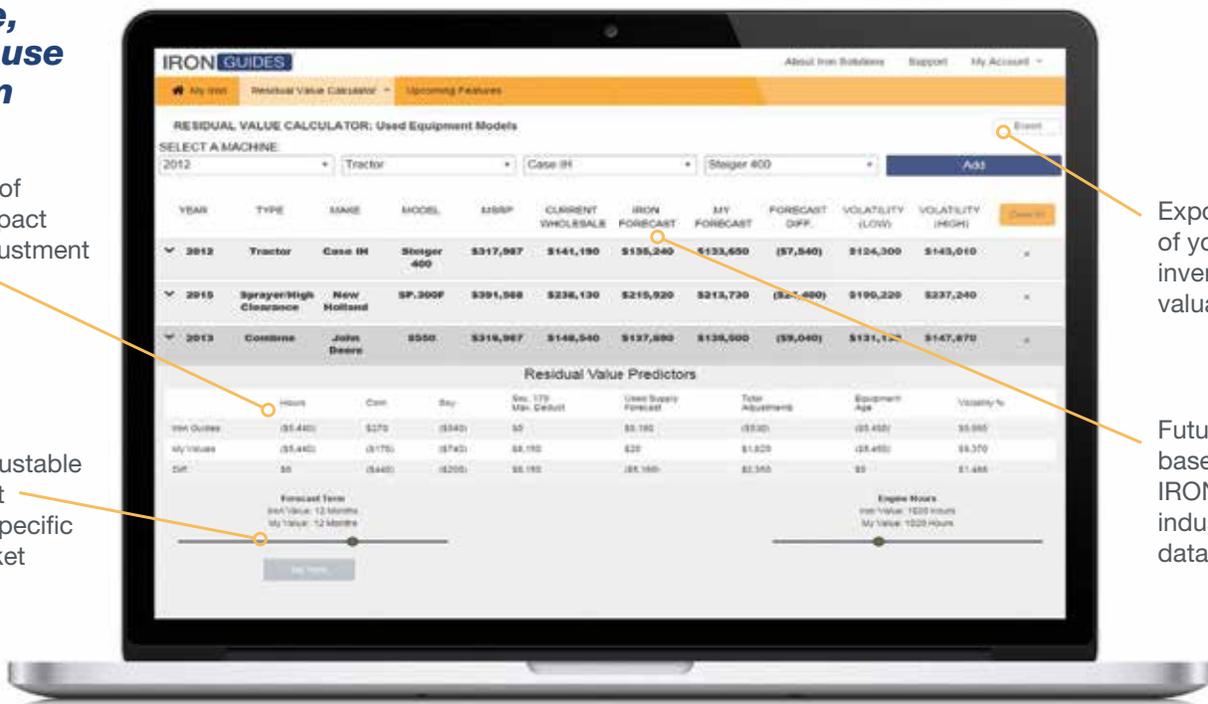
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Get big, get better or get out?

What's your answer?

By TRENT HUMMEL

The three “Gets” are questions dealers should always be asking themselves. For many, these challenging times have presented ample opportunity to ponder on the answers to Get Big, Get Better or Get Out.

Are you a rural lifestyle or large ag or construction dealer or a mix of all? No two dealership answers will be the same.

More than anything, how are individual dealerships operating? Are they successful despite every challenge they face or do they float along with their market conditions?

For large ag dealerships, unfortunately, the downturn is throwing a curve ball as to how an owner or organization is able to answer. The current business cycle is making many dealerships choose *how they have to answer* and not *how they wish to answer*. For far too many, it is difficult to achieve what they desire.

There are a growing number of large ag equipment dealerships that are seeing light at the end of the tunnel. This number is growing daily. There is some chatter regarding financially healthy dealerships getting back to buying more locations.

On the flip side, there are a number of large ag dealerships that are likely in their last year of business. They will be out of money before we enter 2018.

As you will see in the charts in this article, not all markets are in a down cycle. Outside of the energy production regions, compact tractor and construction dealerships are experiencing a boom. Over a five-year span, there has been sales growth in these product types.

As it pertains to you, I challenge you to not only think about the Get Big, Get Better and Get Out answers, but to write out your thoughts. Words on a page are not as easily changed as the words in your head.

The “Get” questions are not always how they appear on the surface. I will share

some of the meaning of the three “Gets.” This will provide direction on how a dealer should answer.

Get Big

Most think adding more locations is the reference to this and, in some cases, it is. Quite often, buying more stores is considered a defensive action. If a strong competitor is encroaching, you may have to buy territory even when the timing is not right. If you have ever bought farmland, you know the time to buy is when it is available even though you may not be ready.

Buying another store has to do with a dealership's long-term vision. We should always be trying to grow sales. If a dealership is getting the maximum out of its current Area of Responsibility (AOR), the only way to grow is to buy more territory.

• **Before you add locations, ask yourself, “Are we getting the most out of our assigned AOR?”**

I'm not advocating that you buy market share, but market share reports indicate a dealership's penetration of a product type within an AOR. Outside of buying more locations, Get Big can also mean getting more than your share. We consistently hear from dealers about their desire to add more locations even though their existing stores are not getting an achievable market share.

Adding 25 percent growth to a store's sales can do wonders to the bottom line. With most organic growth, your expenses increase slightly and this adds more dollars to the bottom line.

Get Better

The absolute definition of insanity is doing things the same way over and over again and expecting different results. Many dealers are putting in long days and have done this for years. What kind of difference would it make on your health and your bottom line

... write out your thoughts. Words on a page are not as easily changed as the words in your head.

if you worked “*on the business*” instead of “*in the business*?”

• **Getting better is about being more efficient – not only more efficient as an owner or senior manager but more efficient throughout the organization.** This requires working with your employees to establish clear goals, achievable objectives and holding them accountable with follow-up reporting and feedback.

Becoming more efficient begins at the top. If employees do not see a change in management's behavior or procedures, they will see no reason to initiate change in their behavior or procedures.

We have been working with an organization that is on an efficiency kick. Efficiency and expense control have become part of their culture. They reduced expenses by 10 percent in year one and another 10 percent in year two. This is all being accomplished without employee layoffs or wage reductions. In fact, the organization is adding team members because of customer demand for their products and service.

The increased growth is due to being more efficient. In all departments, daily customer contacts are up, employee attitude is better and this equates to increased revenues.

This dealership was able to add more money to its bottom line by Getting better at expense control. The rev-



TRENT HUMMEL

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

enue growth is an added bonus. It is a home-run for anyone when expenses are down and revenues are up.

Getting better is not limited to efficiencies or expense control. Better culture, better employees (removing dead wood), better product offerings (dropping/adding lines) and more make a difference. But nothing in your organization will get better without senior managers getting better.

Get Out

This is always a sore spot for some. When an owner has had a good run, made a good living, enjoyed servicing customers, made profitable deals, has had work-related fun with his team, and experienced great manufacturer relations, it is hard to face the reality that it might be coming to an end.

As manufacturers evolve, as an organization grows, as employees evolve, as customer needs become more demanding, the challenge of day-to-day operations can outgrow an owner's ability. This has nothing to do with age. Sometimes a business just outgrows an owner.

• **The worst thing an owner can do is hang on too long.** As the market and competitors move forward, the owner's dealership becomes stale and the value of the company tumbles.

All too often, all or some of the dealer's friends, family members, business associates and manufacturers' representatives can see that the organization is not growing. No one wants to say anything to the owner but someone should. It is a difficult conversation but a little fatherly advice in a motherly way never hurt anyone.

If exiting the business is in your plan, get started now. It takes time for a plan to come together. In my experience, the plan you have written will not be the actual events to your exit, which is okay because you're a dealer and successful dealers have the creativeness to adapt to the events.

Notice the large reduction in large ag unit sales in the last five years (Figure 2). It has to be difficult for a manufacturer to maintain an assembly plant.

The big increases are in the under 40 HP category (Figure 3). In the U.S. alone, more than 50,000 under 40 HP units were sold from 2010 to 2016. There weren't 50,000 total 4 WD units sold during the same time period.

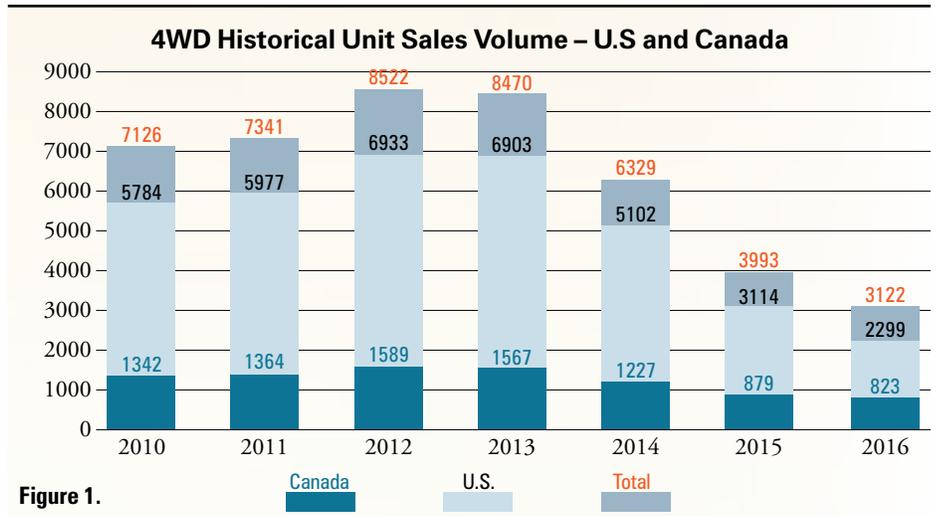


Figure 1.

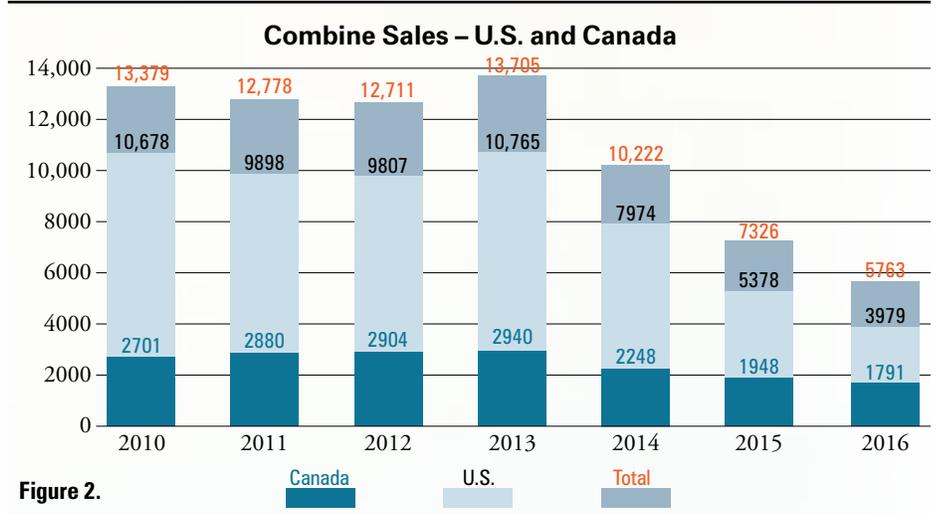


Figure 2.

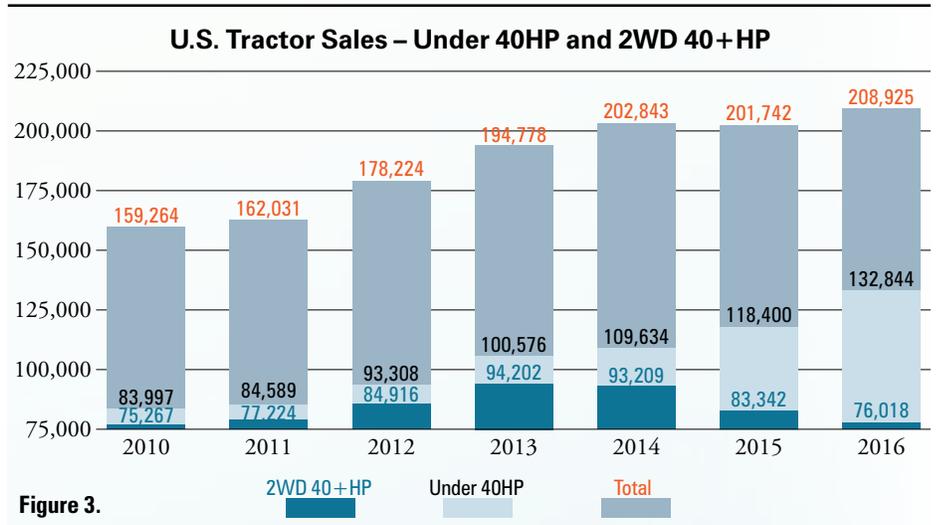


Figure 3.

Data provided by AEM and Glass Management Group

As you're writing down your answers to Get Big, Get Better, or Get Out, review the unit sales in the products you offer. How do you see your organization thriving in the future? Where are your opportunities?

The data is what it is. We might have wished for different numbers but now we have to answer one of the three "Gets" based on the historical unit sales volume and determine where we will fit into the

market going forward... and that's just good business. **WED**

TRENT HUMMEL is a fourth-generation agricultural equipment dealer and a leader in the equipment industry. He also 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 dealership asset management and business operations. Please send questions and/or comments to thummel@westerneda.com.

Why have a Certified Audit?

Things to consider

By CURT KLEOPPEL

If your dealership represents a major line of equipment, the manufacturer may ask you to obtain a certified audit. But, is this the only reason to have an audit? If you have thought about engaging a certified public accountant (CPA) to provide a certified audit for your company, here's information you'll want to consider.

What is a certified audit?

A certified audit is the highest level of assurance a CPA can provide. In an audit, the CPA will carry out procedures to determine that account balances are fairly stated; that the company includes all required disclosures in its financial statements. These procedures are tailored specifically to each company, as well as the industry in which the company operates.

What will happen during the audit?

Following are the four stages of the audit:

1. The planning/risk assessment stage. This occurs before the fiscal year-end. The purpose is to understand the company's business and the environment in which it operates. The auditor wants to determine the major audit risks involved.

2. Internal-control testing. This occurs before and after the year-end. The purpose is to analyze the internal-control procedures (e.g. by checking computer security, account reconciliations, and segregation of duties). If internal controls are assessed as strong, this will reduce (but not entirely eliminate) the amount of "substantive" work the auditor needs to do.

3. Substantive procedures. This occurs after the year-end. In this stage, the CPA firm wants to collect evidence that the management assertions (actual figures and disclosures) made in the financial statements are reliable and in accordance with required standards and legislation.

When internal controls are strong, auditors typically rely more on "substantive analytical procedures." This is the comparison of sets of financial information and financials with non-financial information to see if the numbers make sense and unexpected movements can be explained. If the internal controls are weak, auditors typically rely more on "substantive tests of detail," which involves selecting a sample of items from the major account balances and finding hard evidence to support those items.

4. Finalization. The auditors compile a report to management regarding any important matters that came to their attention during performance of the audit. The auditors evaluate and review the evidence obtained, ensuring appropriate evidence was obtained for every material assertion. The auditor will also consider the type of opinion that should be reported based on the audit evidence obtained.

Is there any real benefit in conducting an audit or is it just another expense?

The audit process enhances the credibility of financial statements through independent verification. With increasing equipment deal-

Procedures commonly performed during an audit include:

- evaluation of the effectiveness of internal controls,
- direct confirmation of cash balances, accounts receivable, investment securities, loan amounts, and terms,
- communication with the company's attorneys,
- review of all significant agreements and minutes of the board of directors' meetings,
- examination of vendor invoices,
- observe the taking of inventory, with price and cost testing,
- analysis of account balance changes,
- a management letter providing CPA's recommendations for improvements, and
- written representations from management

er consolidation and the need for more outside investors to obtain manufacturer approval of a consolidation, a certified audit is not only necessary for the peace of mind of outside investors but also can be required by the supplier or financing institution.

A recent trend in audits has been an increased focus on internal-control procedures, which aim to ensure the completeness, accuracy and validity of items in the accounts, and restricted access to financial systems.

A Certified Audit is very informative to management and helps the company meet the financial requirements put on the organization. It also ensures outside investors and the board of directors that the company is following the goals and directions of the board.

The cost/benefit can be recovered in a short time. If the audit firm actually knows the farm equipment industry, they can make suggestions, put procedures in place so the entity not only saves audit fees but also increases the bottom line for the organization.

I don't need a certified audit now, but probably will in the future.

Is there anything I should be doing now to prepare?

If you know you will need a certified audit in the future, it would be advisable to start having a review of your company's financial statements instead of a compilation. A review is less costly than an audit and a review can put your company on the right track. Thus, when a Certified Audit is needed, the cost and time will be substantially less.

Why should I hire Equipment Dealer Consulting, LLC for our certified audit?

In the equipment industry, having a CPA firm with comprehensive knowledge of the industry is vital to having an efficient and cost-effective audit. The CPA firm needs to know the details of the business, special accounting practices and accounts commonly used in the industry.

Equipment Dealer Consulting, LLC has more than 35 years of accounting experience in the equipment industry. Your time and money will not be wasted in educating someone on industry practices and procedures. We know and understand the equipment industry and will use that knowledge to your advantage. **WED**

CURT KLEOPPEL, CPA, CVA, is treasurer of WEDA. He also serves as president of Equipment Dealer Consulting, LLC, an association partner that provides financial services to members. For information, visit www.equipmentconsulting.com or write to curt@westerneda.com.



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I'm too busy to get anything done

By DR. LARRY COLE

Perhaps it's time to remind everyone about the importance of time. All of us talk about time as being one of our precious possessions. The psychological aspect of time is not always pleasant since most of us experience the frustration of having too little time to do everything that must be done. But is that the real problem or is it our ineptness?

The fact is, all of us have the same 24 hours, yet there is considerable variability among us in terms of how much we can get done. Sometime, calculate the cost per hour to operate your dealership. You might be surprised what the dollars tell you. Here's another shocker. Researchers tell us we lose at least 25 percent of our working efficiency because people issues steal time.

I've been in numerous senior leader meetings where the average hourly salary of participants could easily be \$50. The first rule of meeting management is to start on time. Many times I've waited at least 20 minutes until everyone was present before starting the meeting. These delays burned through several hundred dollars. But, no one noticed or seemed to care because it's a customary aspect of the business's culture... and it can get worse.

Consider the manager who flies around the office like a butterfly stopping to chat with a variety of people for 30-60 minutes per person. Sometimes the conversation is business related but most of the time it is not. Then the manager complains about not having enough time to do what is needed to facilitate the growth of company.

The amount of time is not the problem. The culprit is the use of time. The bottom line: Some of us are better managing our time than others. Why? Do they know a secret? Actually it is not a secret. They simply know how to get things done within their eight-hour workday.

The time management matrix (Figure 1) seems to have been around since the beginning of time and it provides an excellent summary of the use of time categories.

| | URGENT | Not Urgent |
|---------------|--|--|
| Important | ACTIVITIES: Crises Pressing problems Deadline-driven projects Production problems I | ACTIVITIES: Prevention Relationship building Recognizing new opportunities Planning Recreation Production capability problems II |
| Not Important | ACTIVITIES: Interruptions, some calls Some mail, some reports Some meetings Popular activities Pressing matters III | ACTIVITIES: Trivia, busy work Some mail Some phone calls Time wasters Pleasant activities IV |

Figure 1.

Chart from *Time Management: Covey, Juran, and Lean Six Sigma* by Gabriel Kemeny and Michael Reames

Here's the Catch 22 trap we fall into. We spend too much time completing activities in the two "Not Important" categories. Yet, there is an easy fix. We need to log our activities throughout the next several days and place them into one of the four categories. But there are two challenges that interfere with completing this rather simple task. The first is the complaint we don't have time to complete the daily log. The second is the lack of self-discipline required to complete this simple task. So the default position is to do nothing but complain about not having enough time.

Stay with me as I'm changing industries with you. The conclusion of many weight control studies holds a clue for the wasting time dilemma. Studies have found that the simple act of accurately recording one's food intake actually decreases the amount of food one eats. The act of recording helps individuals to become more aware of what they are putting into their mouths, which, in turn, leads to better food selection.

Yes, initially people complain about exerting the self-discipline to log their food, but eventually it becomes more of a routine.

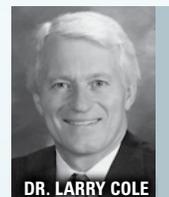
Please study the preceding sentence for just a moment because it holds the truth for all of us as we begin using a behavior outside of our routine.

Here's the shocker – it is estimated that most of us spend over one-half of our time in the "Not Important" categories. Some believe that number actually approaches 80 percent. What a waste of such a valuable resource.

Just the facts

The facts are, we are not going to improve our use of time until either the pain of wasting time and putting in long hours becomes so great that it literally forces us to change or until we develop a strong "want to" to improve our personal performance.

Examine Figure 2 (page 17), which displays the strategies for each of the categories. It's obvious that effective use of time is not rocket science. It's simply a matter of becoming aware of what



DR. LARRY COLE

is a lead trainer for the Western Equipment Dealers Association's Dealers Institute.

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| | | |
|----------------------|--|--|
| | URGENT | Not Urgent |
| Important | DO I | Schedule II |
| Not Important | Delegate III | Eliminate/ Re-evaluate IV |

Figure 2.
Eisenhower Time Management Matrix

fits into the array of categories and exerting the necessary self-discipline to use the appropriate strategy.

I need to point out a psychological factor that influences the waste of our time. It's the "ego factor." Yes, unfortunately some of us enjoy communicating the fact that we have too much to do. The false notion that being busy in obtaining results provides a certain amount of intrinsic value – we feel important. If this shoe fits you, I encourage you to

stop wearing it. Instead, change your way of thinking to realize that you tell people you're important by results you achieve, not by the hours you put in.

So what is the fix?

Figure 2 provides effective fix strategies, but there are a few items that need completed before we get to the fix stage.

First, know the most important thing for you to achieve today. Most of us write "To Do" lists longer than we're going to accomplish today, taking into consideration the daily flow of interruptions. Not completing the list becomes discouraging and even depressing. These emotional responses only serve to sabotage the energy needed to be a high performer. Consequently, people may not want to look at their "To Do" lists or even prepare one. Here's another fix. Instead of listing everything that you would like to get done today, list the 1 – 3 results you need to achieve that are absolutely critical to success.

Second, schedule and block out time on your daily calendar to accomplish those most important results.

After you finalize your list, come hell or high water, just do what needs to be done.

You're going to learn that your world is not going to end as you develop the habit to ignore those "Not Important" tasks and focus your energy on being productive.

After all is said and done, give yourself a pat on the back. Achieving the results feels good and that encourages you to repeat the same process tomorrow. Before you know it, maximizing your time will become routine.

A postscript needs mentioning. To maximize personal production, research suggests we need a break of a few minutes every 90 minutes to refresh our personal computers, namely our brains, and prevent fatigue. That's a good time to take a brisk walk around the perimeter of the store – EXERCISE (I knew you would love that suggestion). **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



Service technicians

The real faces of your dealership

Today's technicians are vital to a dealership but not solely because of their ability to turn a wrench.

Beyond a receptionist, few people in a dealership stand to have more contact with customers than service technicians.

"So much of a dealership's reputation centers on how well service technicians perform their jobs and interact with customers," says Jim Facente, a trainer with the Dealer Institute, the educational division of the Western Equipment Dealers Association (WEDA).

"When a customer has a question about an equipment repair or a problem with the repair, the service department usually gets the call," adds Facente. "However, quite a few service technicians are not as skilled as others in dealerships when it comes to communication and this can shoot holes in delivering an exceptional customer experience."

Facente, a former dealer, says many equipment businesses spend tens of thousands of dollars on business cards, advertising, uniforms, business logos, fancy invoices, and sales training but often overlook how much customers rely on the real faces of the business – the service technicians.

"Credibility is a big word with consumers," notes Facente, who conducts customer experience webinars for the Dealer Institute. "It speaks of trust and people with equipment problems or repairs need to know they're speaking with a skilled communicator."

Today's technicians are vital to a dealership but not solely because of their ability to turn a wrench. Technicians need to be able to suggest additional repairs, plus know how to deal with difficult or angry customers without becoming confrontational or making inappropriate comments, how to build customer loyalty, and, most impor-



Jim Facente, Dealer Institute

tantly, how to provide an exceptional customer experience.

Because of the broader role technicians have in working with customers, Facente worked with the Dealer Institute to create a new customer experience training program specifically for service technicians. The program is based on how top service technicians interact with customers and represent your business.

The 90-minute program is conducted by webinar and attendees will hear recorded interviews of some of the equipment industry's top service technicians and learn what they do to create an exceptional customer experience.

"We have interviewed hundreds of technicians throughout North America and we're excited to offer this new program to Western's members," says Facente. "Since it's webinar-based, employees won't have to leave their dealerships and that saves time and money on travel and expenses."

The service technician program is offered to members of the Western Equipment Dealers Association at \$199 per person. Plus, dealers will receive one free registration for every 10 technicians enrolled. "We also offer follow-up videos to employees who go through the training," says Facente. "The brief videos reinforce the concepts presented during the training program." **WED**

For information about the service technician training program, dealers may call the Western Equipment Dealers Association serving their area or write to Jim Facente at jim@css12.com.



Dealer Institute at a glance

A full-service educational, training and consulting resource

The Dealer Institute was launched in January of 2015. According to John Schmeiser, CEO of WEDA, the Dealer Institute is a resource where dealers can benefit from programs that will help them tackle business challenges facing their organizations.

"For over 125 years, dealers have trusted the association to be the industry's advocate and provider of solutions," says Schmeiser. "We didn't just expand services by launching the Dealer Institute... we did a comprehensive reorganization of the educational arm of the association to give dealers more opportunities for business success."

In addition to providing classroom training for dealership personnel, hosting industry seminars, conducting webinars, and facilitating on-site consulting services for all departments, the Dealer Institute's key focus is developing solutions to help dealers with emerging business markets, something lacking within the equipment industry.

"It's important that all dealers have access to the same quality programs, services and support," says Cory Hayes, vice president of training and education for WEDA. "By reorganizing our education and training efforts, we have developed topical and affordable courses that focus on a dealer's bottom line, provide real-world solutions and help them make continuous business improvements."

For information about the Dealer Institute, dealers may call their regional Western association offices:

- Canadian Region, Calgary, Alberta, at 800-661-2452
- Southwest Region, Kansas City, Mo., at 800-762-5616
- Pacific Northwest Region, Salem, Ore., at 800-933-7437



Retirement Plans

What dealers are asking about

By DAVID WENTZ

Recently, during meetings with equipment dealers and their 401(k) participants, I have noticed some commonality in the questions I've been receiving. Many of you are asking more questions revolving around required minimum distributions, beneficiary designations, retiring in a down market, and helping adult children. I hope that I can answer some of these questions in this column.

Required minimum distribution

To begin with, what is a required minimum distribution (RMD)? As an owner of a tax deferred retirement account, you are allowed to begin withdrawing from that account (if the plan allows) with no penalty after age 59½. An RMD is the amount you must withdraw from a traditional IRA or qualified retirement plan on an annual basis after age 70½. However, if a person is still active with the company, they are allowed to defer their RMD requirement until they separate from service if they choose. Two caveats to that are: an owner of the company is not allowed to defer and must begin taking the distributions at age 70½; and once a person starts taking their RMD, they cannot stop them. Required minimum distributions are designed to make sure owners of tax deferred retirement accounts don't defer taxes on their retirement accounts indefinitely. So, what determines your required minimum distribution? Your RMD is dependent on several of variable factors: your age; the value(s) of your account(s); and your life expectancy, and possibly that of your beneficiary. There are various tools you can use to help determine what your required minimum distribution will be, such as the IRS Uniform Lifetime Table.

To calculate your RMD, use this equation:

$$\frac{\text{(Account Balance @ end of year)}}{\text{(Life Expectancy of you and possibly beneficiary)}}$$

Beneficiary designations

Beneficiary designations are another topic that seem to generate many questions. One place to start in regard to beneficiary designa-

tion is a will, to ensure that your assets are distributed and passed on in a manner that you approve. That being said, beneficiaries of financial accounts and insurance policies will usually supplant instructions in a will. A common approach when it comes to designating beneficiaries is to name a spouse as the primary beneficiary, and any children as contingent beneficiaries. It is important to remember that any minor child who is designated as a beneficiary should have a guardian or trustee to control any assets until the child is capable of managing the assets.

Retiring in a down market

A third topic that has been producing many questions is the prospect of retiring in a down market. Ideally, your retirement is perfectly timed, with all of your debt paid off, and you have saved enough to endure a comfortable retirement. Unfortunately, for all of us, we don't live in an ideal world. Only four out of 10 current retirees retired when they planned to. Thus, it is a good idea to prepare for the chance that you retire during a down market. Let's begin with the idea of "Sequencing Risk," which is the risk of experiencing poor investment performance at the wrong time (i.e. the beginning stages of retirement). Market losses at the start of your retirement could have a large impact on your retirement income. Here are some ways to hedge against sequencing risk due to retiring during a down market:

1. Dividing your portfolio: When it comes to your investment assets, you want to build a diverse portfolio to hedge against market fluctuations. One way to do this is to divide your portfolio into three specific "buckets" that reflect three phases of your retirement; the short term (2-3 years), the mid-term (3-10 years), and the long-term (10+ years).

2. Determining Withdrawals: A typical rule of thumb for deciding on the amount of the annual withdrawal you make is the "4 Percent Rule." With this principle in mind, you initially withdraw 4 percent of your portfolio, and increase the amount every year adjusting for inflation. To some, however, this strategy proves far too risky, so make sure to make a decision that is comfortable for you.

Regardless of what you choose, the three-part strategy for dividing your portfolio mentioned previously allows you to keep track of and monitor your asset performance in the mid- and long-term buckets, all the while drawing from the short-term bucket of cash and cash equivalents. Even with thoughtful planning, retirement can bring surprises to the table, so it would be smart to be prepared.

Assisting adult children

The last topic I have been getting questions about recently is helping adult children. Our children are precious to us, and naturally we want to help them in any and every possible way that we can. With that in mind, it may be more beneficial for you, and your child, to stand on your own financial ground. Data shows us that nearly one-third of young people ages 18-34 were still residing in their parents' houses in 2014. Over the last two years, we have seen an uptick in the economy; however, there are other factors influencing the number of young adults living with their parents. The college attendance rate has dropped, while the average marriage age has increased. While a young adult staying with parents in certain situations, such as looking for work, and during and/or after college, could be a natural progression in your family, long-term support can stunt a young person's ability to progress or accept financial responsibilities. It also makes it harder for you to pursue your goals. Some things to think about if you find yourself in such a situation are:

- 1. Cut the strings gradually:** Considerations could include charging a low level rent or expenses fee.
- 2. Examine the situation:** Think about your child's situation. Is it an unexpected, short-term issue? Is it a chronic, reoccurring issue? Examine and act in accordance with what you feel is appropriate.
- 3. Establish whether your monetary support is a gift or a loan:** Making your support a loan could aid in increasing your child's motivation to develop increased financial responsibility. But, remember to set up a realistic repayment plan.
- 4. Consider other ways in which you can help:** Think outside the box on this one. Is there someone you know that can help your child in the job search? A spare car they could use for transportation?

I hope that some of this will help answer any questions you may have in regard to these topics. Remember that your financial advisor works for you, and contact them for any specific questions you might have. **WED**



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Growing your business by developing a professional image

By DR. JIM WEBER

For the past several years the overwhelming number of equipment dealers, especially those in the cash crop market, experienced what Charles Dickens referred to as

“The best of times, the worst of times,
The age of wisdom, the age of foolishness,
The season of light, the season of darkness,
The spring of hope, the winter of despair.”

In sum, many dealers had everything before them, yet nothing before them. Now that the prosperous years of 2008-2013 have turned downward with prognosticators predicting that the downturn could last for a few more years, dealers should be asking: “How can I weather the storm until a more propitious business cycle returns?”

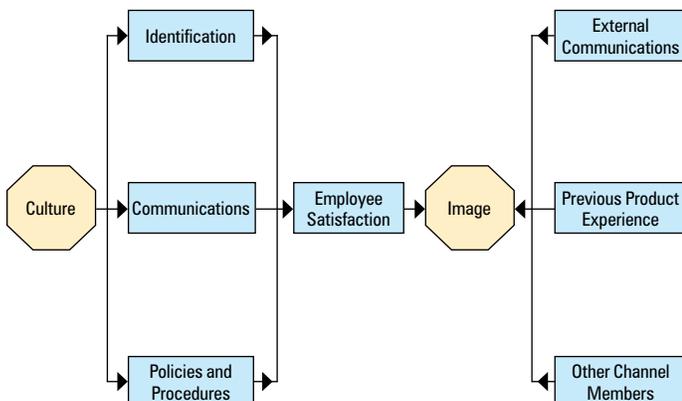
Although no clear, definitive answer can possibly exist, one approach would be to emphasize ebullience rather than truculence, cleanliness rather than clutter, and empathy rather than enmity; in short, a professional image of a professional businessman in charge of a multi-million dollar business clearly aware of the needs of his customers as well as his employees.

Image, more than anything else in the years to come, will clearly differentiate the winners from the losers, the best from the worst, and the survivors from the failures. A professional image will not necessarily require a building designed to be a monument to the manufacturer nor a replacement of the entire workforce. Instead, a professional image will necessitate a clean, orderly work environment staffed by friendly and helping personnel. It will be the implementation of those four words: clean, orderly, friendly and helping that will do more to grow a dealer’s business profitably in the years to come than any company program, governmental legislation or management consultant’s report could ever hope to accomplish.

But what is this magical word – image – and if it’s so easy to achieve, why haven’t all the other dealerships and manufacturers initiated a comprehensive image program. For starters, image can be defined as

“A set of meanings by which a dealership is known and through which people describe, remember and relate to it. That is, it is the net result of the interaction of a person’s beliefs, ideas, feelings and impressions about the dealership.”

As such, image cannot be developed by waving a magical wand nor by sprinkling fantasy dust over the dealership. In fact, a professional image can only be developed by maintaining a careful balance between internally and externally controlled factors. The following diagram illustrates those factors and their impact on image.



The external factors contributing to a professional image are those to the right of the cell entitled “Image.” On the other hand, internal factors which play a critical role in formulating a professional image are those to the left of that cell. Review of the diagram clearly illustrates that image is ultimately a reflection of the dealership’s culture that is existent within the dealership.

A year ago I wrote a column for this magazine entitled “Dealership Culture.” In that article I cited E. H. Schein, one of the foremost authorities on organizational culture, who defines culture as something that the dealership has, and as such is “the shared meanings, assumptions, and underlying values” of the business. Schein goes on to state that “culture itself is an interpretive scheme or way of perceiving, thinking, and feeling in relation to the group’s problems.” Thus, the interrelated psychological qualities of a dealership’s culture reveal a dealership’s agreement, implicit or explicit, on how to approach decisions and problems. In other words, a dealership’s culture can be summed up as “the way things are done around here.” And, “the way things are done around here” ultimately manifests itself in the way employees, stakeholders, and customers perceive the dealership; that is, the image of the business.

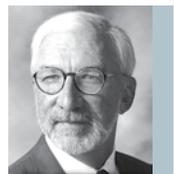
Although culture as a management buzzword has been around for nearly forty years, many dealers have yet to grasp its importance. While a strong positive dealership culture is a prerequisite to a professional image and a sustained record of high financial performance, the key to evaluating a dealership’s culture rests on understanding its various components. The synergism and interrelationship of the twelve components that make up a dealership’s culture become the means to the end; not only in relation to a professional image, but also as it relates to continued high performance. The diagram opposite illustrates the twelve components that make up a dealership’s culture.

The first component that will positively or negatively impact a dealership’s culture is the way that the dealer looks at his/her market and the customers that they serve therein. Dealers frequently state that customer loyalty is dead; but wait, for many dealers, customer loyalty was never alive to begin with. For those dealers, they need to answer the following question: “What have you ever done to cultivate customer loyalty?”

Dealerships that have a negative culture are generally those that perceive customers as just another sale, or worse, a necessary nuisance. In this type of culture it is generally believed that the dealer and the employees know more than the customer. The approach is really one of giving the customer something that he wants rather than something that he needs.

Conversely, dealerships with a positive culture know and believe that the customer is always right. They anticipate the customers’ needs and stock accordingly. Dealerships with a positive culture know that employees, not buildings, products, or locations, are what make the difference. While each of the latter may all be state of the art, without the proper people they simply become another sad state. Dealerships with a positive culture exude a highly conscious approach to excellence from the top down and from the inside out. The customer is first and the dealership is simply one of many avenues to fulfill his needs.

Dealerships who continue to employ order takers or who continue to believe that profitable sales are a function of walk-in customers typify a dealership’s negative approach to the market. Customers in the capital goods industry actually want ag-



DR. JIM WEBER

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



Twelve components that make up a dealership's culture

gressive salespersonnel who contact them frequently and provide them with knowledgeable information to facilitate the decision-making process. As a result, dealerships who employ aggressive, goal oriented, overachieving salespersonnel who seek to become a partner with their customer are generally on the road to developing a very positive dealership culture. Similarly, dealers who stratify their territories, segment their customers, and embrace customer share while eschewing market share are inclined to have a positive orientation to their market and customer base.

The second culture component is the dealership's attitude and willingness to change. Dealerships with a negative culture are those that are reluctant to change or who spend their days reminiscing about the "good old days;" or blaming others for their failure to achieve the success that they covet. Many dealers and salespersonnel consistently manifest an inability to change by their reluctance or refusal to call on new customers. They just continue to rely on the same old customer base, thereby leaving an incredibly large untapped market for the competitive salespersonnel to exploit.

Dealers who focus on maximizing profitability rather than optimizing dealership cash flow are another example of dealers who are mired in the past, as is the dealer's inchoate or ephemeral embrace of the absorption rate as a critical metric to ensure lasting success. Similarly, dealers who continue to pay their salespersonnel a salary and/or to post a higher gross margin percent on new equipment sales rather than on used equipment sales are emblematic of dealers looking backwards rather than those going forward.

On the other hand, dealers who look upon problems as opportunities and strongly encourage their employees to come up with innovative ways to undertake their job would clearly be contributing to a positive culture. Dealers with a positive culture are also those who believe in Demosthenes' saying that "small opportunities often turn into great enterprises."

The third component affecting a dealership's culture is its strategic focus. In dealerships with a positive culture, each departmental manager is aware of the goals and objectives that will drive his/her department as well as the role such objectives will play in the attainment of the overall dealership mission. In essence, a dealership's strategic focus refers to the development of a comprehensive dealership plan.

Regrettably, many dealers in 2017, for a myriad of reasons – some justifiable but most unjustifiable - still avoid developing an overall financial and operational plan. Instead of becoming proactive, most dealers still function in a reactive mode responding to problems after the fact rather than anticipating before the fact opportunities. Thus, dealers seem to be following the advice that the Cheshire Cat gave to Alice in the book *Alice in Wonderland*, when Cat stated, "if you don't know where you are going, then any road will get you there."

Image, more than anything else in the years to come, will clearly differentiate the winners from the losers, the best from the worst, and the survivors from the failures.

Numerous studies over the years on goal setting have found that a balanced focus on task and personal development goals can have a positive influence on job satisfaction, job design and organizational climate. Development of a comprehensive business plan not only ensures a commonality of purpose, but also a sense of being and belonging since each and every individual is by nature goal oriented.

The fourth component impacting a dealership's culture is the values and standards that are the fabric of everyday life in the dealership. Each employee, and, therefore, ultimately the dealership, is governed by a core set of values. Examples of these values may include, but are not limited to, the following:

- Respect for authority
- Sensitivity to feelings
- Religious or ethical values
- Support of government
- Hard work
- Family obligations
- Capacity for loyalty

When values such as these are "believed in" and embraced by each and every employee, they have the ability to positively affect behavior on and off the job.

Closely related to the dealership's values are its performance standards. Dealerships that have strong performance standards expect the best from their employees. These dealerships know that being good is no longer acceptable; being the best is the only thing that matters. These performance minded dealers recognize that the formulation and implementation of exacting standards will differentiate them from the masses.

On the other hand, dealers who retain an employee even though they know his/her contributions are minimal are also those dealers with low or non-existent performance standards. Similarly, these same dealers are likely to permit slovenly appearance and disorganization because they've convinced themselves that better employees can't be found. They'll tolerate mediocre performance because "that's the way it's always been around here." In short, dealers who are unwilling or unable to change and who foster low standards create not only a negative culture but also consign their dealership to a future of mediocre performance.

The fifth cultural component is rituals to support the values previously addressed. Rituals are ceremonies that provide the support for the all-important dealership values. Dealers, who have successfully created a positive culture, long ago recognized the importance of recognition. Studies have consistently found that more than anything else, including wages, employees seek, and want, recognition. That's why many dealerships have established a service department recognition board that not only differentiates between the various classes of technicians, but also lists their accomplishments, both on and off the job.

Other successful dealers have recognized key employees in their marketing programs or with a plaque for the employee of the month. One way of recognizing salespersonnel could be to provide the salesperson with a ring the first year they hit their target and then provide a diamond insert for every year thereafter for achieving a series of challenging sales objectives. Each and every one of these rituals require only a minimal amount of monetary outlay, but will deliver a maximum amount of return.

Future articles will address those additional components that positively or negatively affect a dealership's culture as well the other internal and external factors that impact a dealership's image. **WED**

One key to running a great business

By JERRY LEEMKUIL

What is one of the most influential factors affecting your company's success? It's your employees – the people who are right beside you, helping to build the profit and pursue opportunities for growth. Physical assets – the buildings and equipment – support financial goals, but to carry out the directives necessary to reach those goals, a company won't get too far without trusted employees.

And, if you're like other business owners, you have certain employees whose departure from the company could create genuine setbacks. They're the ones with the management skills, technical know-how, experience, and customer relationships you rely on. How would your company handle the void left by a key employee's departure or death, and the urgent need to find a qualified replacement?

Are any of your key people close to retirement, or absent due to a long-term illness or disability that may prevent their return? Perhaps one of your star performers recently quit. Or, perhaps, one of your key employees passed away not long ago. With the anxiety of losing a valuable employee still fresh in your mind, it's a perfect time to start putting a plan in place to protect your company in the event another key person leaves.

Determine who your key employees are

They are the employees you could describe as the people you can't do without – the ones you trust to make the right decisions when you're not available. They can be at any level or in any position. And there currently may be no one who could step right in and take over their responsibilities.

Remember, you're a key person too. While it can be uncomfortable to think about one's own mortality, concentrate on those left behind and what they could go through if you haven't planned for your company's future.



It's estimated that the cost to replace mid- to high-level employees can range from one-and-a-half to four times their annual salary.

Decide how to protect your company after losing a key employee

It's an unhappy reality of running a business that good employees leave. And, if an employee has distinctive skills, the loss can be even harder to deal with. That person's unique talents and expertise mean you need to fill some big shoes. Plan to spend a lot of time and effort finding a replacement. And, don't forget money. It's estimated that the cost to replace mid- to high-level employees can range from one-and-a-half to four times their annual salary.

Are you prepared to cover that expense out-of-pocket?

Few employers have that kind of extra money lying around, "just in case." Having an important employee leave is enough of a disruption to your business. Do you want to add a financial burden on top of that? **WED**



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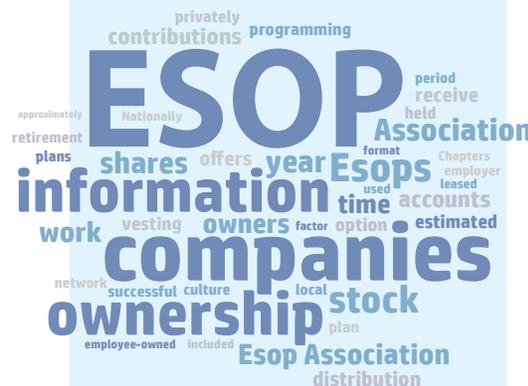
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ESOPs: Creating a structure to meet manufacturer expectations and develop dealers of tomorrow

By LANCE FORMWALT



Any good business succession plan involves two key parties... the exiting owner/manager and the future owner/manager. But in our world of equipment dealerships, your manufacturer is a critical third party that must buy in to your succession plan. The reality is that manufacturers and their vision for their future distribution networks play an important and ever-present role in how we think about the future of equipment dealerships. As a result, when reviewing succession planning options for dealerships, we must take into account the manufacturer's view and try to find strategies that create a win-win-win for the three key parties at the table.

I certainly don't have a crystal ball when it comes to figuring out what every manufacturer is looking for in its ideal dealer of tomorrow. But I do have a pretty good idea that most manufacturers place a high value on three key issues:

- **Capital** – Will the future dealer have capital to fund consolidation of the manufacturer's dealer network or investment in the dealership to expand product lines as the manufacturer grows?
- **Professional Management** – Will the future dealer have professional management capable of taking care of customers, adapting to industry change and meeting operational or other initiatives of manufacturers?
- **Stability** – Will the future dealer be around for the long haul?

Although many dealership structures can address these key manufacturer issues, a dealership owned by an employee stock ownership plan (ESOP) can pass all of these tests with flying colors. Let's take a closer look at why ESOPs should be viewed by manufacturers as a viable (and perhaps preferred) succession planning strategy for dealers.

ESOPs generate capital

In my past articles, I've discussed how ESOPs can be an attractive succession planning option for selling owners and the dealership's management/employees. Much of these benefits come from our tax laws. The same tax laws also allow ESOPs to generate capital at higher rates than normal dealership structures in the right situations. Here's how:

- **Most ESOP-Owned Dealerships Won't Pay Income Taxes** – ESOPs are not subject to income tax. If an ESOP owns all of a dealership that is an S corporation, all of the dealership's profits flow through to the ESOP like your S corporation profits flow through

to you as the owner of your dealership. The key difference is that you have to pay income taxes, while the ESOP doesn't. Based on typical federal and state income tax rates, this means a normal dealership will see 40-50 percent of profits leave the business to pay taxes. With an ESOP, these dollars stay with the dealership and can be used for other purposes.

- **ESOPs Retain Profits** – Owners expect to receive a return on investment. After taxes are accounted for, this often means that additional funds are paid from the dealership to the owners, whether in the form of a dividend/distribution or compensation. ESOPs do not require a return on investment (other than to fund the repurchase of employee shares over time as employees retire), meaning that the bulk of the dealership's profits remain with the dealership.

An ESOP's ability to generate capital is an impressive tool that can be used for many purposes. At the beginning of an ESOP, much of this capital will be used to pay off the debt the dealership takes on to buy out the selling owner(s). However, as the owner is paid off, most of the capital generated by the ESOP stays with the ESOP to be used to generate additional value for the dealership (and ultimately fund retirement plan payments to employees). This could come in the form of investment in new or upgraded facilities, training or inventory and the acquisition of other dealerships. It is also important to note that even though an ESOP-owned dealership will often begin with a low tangible net equity percentage (or high debt to equity ratio, depending on how you look at it), within the span of just a few years, it is often feasible for the dealership to be at a 50 percent tangible equity percentage (or roughly 1:1 debt to equity ratio).

Professional management is required

The role of professional management in an ESOP is pretty straightforward and can be expressed as an equation:

$$\text{No Professional Management Team} = \text{No ESOP}$$

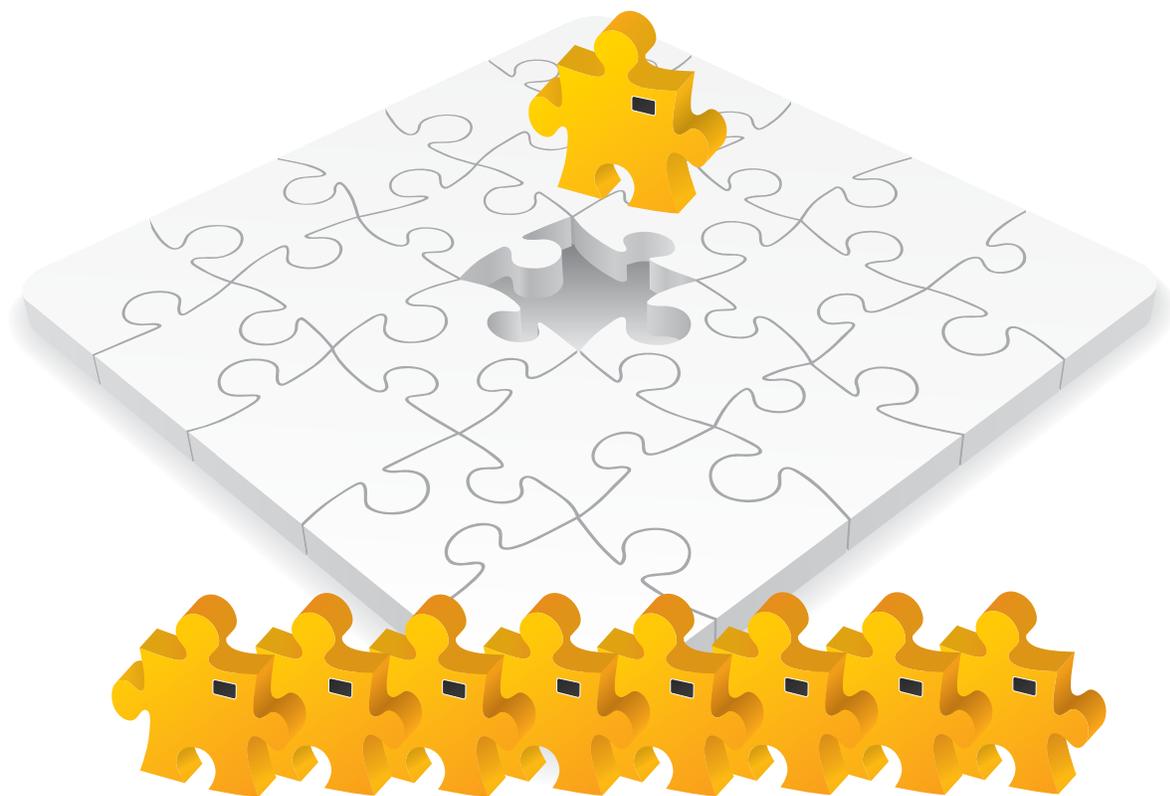
The bottom line is that if a dealership does not have a solid management team in place, there is little chance for an ESOP to get off the ground. A professional management team is an area where everyone involved in an ESOP transaction is aligned:

- The selling owners want a good management team because they want to make sure



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ESOPs: Creating a structure to meet manufacturer expectations

Continued from page 24

that they get paid since a significant percentage of the purchase price (up to 50 percent or more) is often paid to the owners over time (and after the lender gets paid).

- The ESOP trustee will require a good management team since the continued viability of the dealership is important to maximize the benefits of the ESOP retirement plan for the employees.
- The ESOP lender will insist on a good management team to help ensure repayment of the ESOP loan.
- The manufacturer wants a good management team so that the dealership is a stable business enterprise capable of adapting to changing industry conditions and supporting manufacturer initiatives.

ESOPs promote stability

A dealership that is ESOP-owned is designed to be around for the long haul. This happens in a variety of ways. First, because a good management team is mandatory, most ESOPs will structure incentive compensation plans for managers that are designed to reward performance over the long term (often from 10-20 years). Second, employee turnover is generally lower than a typical business due to retirement benefits that can be significantly higher than typical 401(k) benefits but vest over a fairly lengthy period (usually six years). Finally, the biggest threat to stability in a dealership is an ownership transition. An ESOP-owned dealership effectively eliminates this risk due to a structure in which individual employees do not dominate the ownership of the company. As a result, an ESOP is constantly buying out the stock of employees as they retire, but the amount being purchased at any one time is a small percentage, ensuring continuity within the organization and minimizing financial strain associated with each employee buyout.

Another way to think about ESOP-owned dealerships and stability is that the ESOP promotes stability by adopting the best features of a public company – good corporate governance practices that come with having a trustee, a board of directors that usually includes independent directors and a retirement plan as the owner coupled with a structure that promotes ownership changes without a change in control. At the same time, an ESOP avoids the public company challenges of frequent public reporting and activist investors that can cause public companies to focus on short-term decisions that can lead to instability.

Wrap Up: Is an ESOP right for you?

As the owner of your dealership, you need to continually revisit succession planning. While an ESOP is not the right strategy for everyone, I've focused my last few articles

on an ESOP-based succession plan because it can provide significant benefits to many of today's dealer organizations but it is often over-looked and misunderstood by dealers, their advisors and manufacturers.

It is my hope that I've been able to help break down the key aspects of an ESOP and explain in plain English the benefits of an ESOP to owners, employees and manufacturers so that you can adequately consider it along with traditional succession planning strategies and set a direction that is both best for you and your family and comes with the support of your manufacturer. **WED**

LANCE FORMWALT is the leader of the Equipment Dealer Group at Seigfreid Bingham, P.C. He and his firm assist dealers with succession planning, including the implementation of ESOPs. 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.

This article is intended to provide general recommendations and is not intended to be legal advice. You should always consult your attorney for advice unique to you and your business. Please note that any estimates of tax consequences are based on the current tax code and could change based on future changes in the law or regulations.

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