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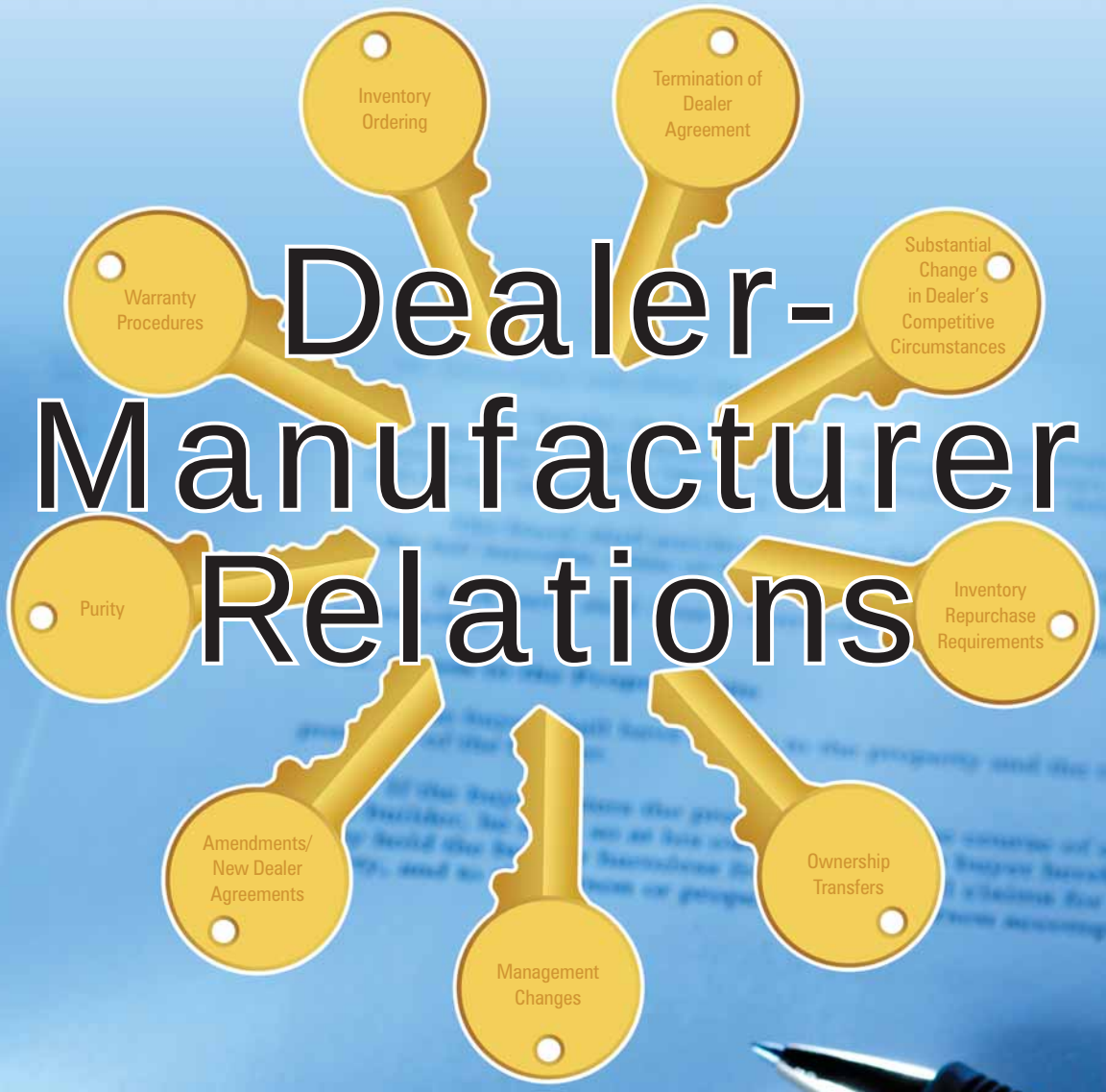
WESTERN EQUIPMENT DEALER
RESOURCES FOR SUCCESSFUL DEALERS

Dealer-Manufacturer Relations



Western board adopts key principles page 4

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Cover: The WEDA board of directors recently adopted nine key principles related to dealer-manufacturer relations. See page 4.

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WESTERN EQUIPMENT DEALER

RESOURCES FOR SUCCESSFUL DEALERS

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Western board adopts key principles

If anything can be said about the relationships between equipment dealers and manufacturers there is never a dull moment.

While both parties have distinct roles in providing equipment and service to customers, the level of collaboration and cooperation has sometimes bordered on being immature, which is mindboggling when you consider this industry is well beyond 100 years old.

Some organizations, whether it's this industry or others, have improved business results all along the supply chain by sharing information and developing common strategies. However, some retailers and suppliers continue to struggle and conflicting views on how to make money is often at the core of the struggle.

Retailers want flexibility in developing business plans that not only encourages customer loyalty but differentiates them from competitors. This can be a sore spot for some suppliers, which leads to coarse talk, lawsuits and legislation.

As a dealer advocate, the Western Equipment Dealers Association has made dealer-manufacturers relations a top priority since the organization was founded in 1889. Fast forward to today and some of the issues that had people at loggerheads back then are still present. But pointing fingers accomplishes little, which is why the association has proactively looked for solutions to this thing called dealer-manufacturer relations.

In the not-too-distant past, the association, then known as the SouthWestern Association, floated the idea of model legislation, something that would balance the needs of dealers and the industry's suppliers. This concept was also adopted by the former Canada West Equipment Dealers

Wally Butler, CFO, the Mazergroup

"It's vital to not only have consistent agreements with manufacturers but also consistent legislation that makes sense for all involved – manufacturers, dealers and agriculture producers – even governments."

John Schmeiser, CEO, Western Equipment Dealers Association

"There is a prevailing thought that if manufacturers agreed to the key principles and conducted their business accordingly, perhaps there wouldn't be a need for dealer protection legislation in the first place."

Association. While the idea of model legislation may have been moved to the back burner, it continued to simmer and did create a framework that may be more relevant today than 15 years ago, according to Wally Butler, CFO, of the Mazergroup.

"Dealerships continue to evolve to meet the needs of the changing economics of agricultural production. This has led to larger dealer groups investing in infrastructure and technologies often beyond traditional geographical footprints of state or provincial boundaries," says Butler, whose New Holland dealership operates 15 stores in western Canada. "It's vital to not only have consistent agreements with manufacturers but also consistent legislation that makes sense for all involved – manufacturers, dealers and agriculture producers – even governments."

Butler says the ongoing desire to have consistent agreements and consistent legislation prompted the Western board of directors to adopt nine principles related to dealer-manufacturer relations. "Development of the key principles is a template for ongoing improvement of the business environment, which is fundamental for the production of food for the world," adds Butler, who also serves as president of the Western board.

"Defining key principles is part of the process," says John Schmeiser, CEO, Western Equipment Dealers Association. He says not only do they outline what the association stands for but they're important in "determining what should or shouldn't be addressed through legislation."

The key principles

While the nine key principles weren't etched in stone by flame on the top of a mountain, they were developed with reverence for the process of improving manufacturer relations. According to Schmeiser, the idea of the key principles first surfaced during a meeting of the top executives of other associations that represent dealers throughout North America. He says this is just another attempt to keep the lines of communications open with manufacturers.

"There is a prevailing thought that if manufacturers agreed to the key principles and conducted their business accordingly, perhaps there wouldn't be a need for

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The key principles were developed with reverence for the process of improving manufacturer relations.

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dealer protection legislation in the first place," says Schmeiser. "If we achieve this, I think Western's members would view their relationships with the manufacturers as true partnerships and create a winning formula for manufacturers, dealers and customers."

And, notes Schmeiser, while improvements have been made over many decades of discussions, the association's biennial survey of dealer-manufacturer relations suggests some relationships are getting worse – and that's what the key principles seek to improve.

"The reality is that there are some great manufacturers that go above and beyond to support and help their dealers. Unfortunately, not every manufacturer treats dealers in the same vein. This is what creates problems and can lead to legislation," which Schmeiser calls unfortunate.

"It's unfortunate when dealer-manufacturer relationships deteriorate to the point that the only solution is more legislation, which results in legal challenges to the legislation by manufacturers. When we operate in a contentious environment the industry as a whole loses," he adds.

Dirty laundry is unpleasant

Schmeiser says when the dealers and manufacturers resort to airing their dirty laundry in front of elected officials the industry is not served well.

"When we are forced to lean on a legislative solution, it speaks to the breakdown in relationships," says Schmeiser. "It's hard to fault any association that feels it has to solve important issues through the legislative process; however, the Western board started thinking there has to be another way and that led to the development of the key principles. The board believes if the association can prevent the need for legislation in the future, adopting the nine principles was worth the effort."

Butler agrees with Schmeiser. "As a fundamental pillar of Western's commitment to dealers, the board believes manufacturer relationships are critical for industry success. Western now represents over 2,000 dealers in nine states and nine provinces. That's nearly 25 percent of dealers in North America, making it an excellent time to spearhead ongoing discussions with manufacturers about relevant issues to the dealers of today and tomorrow. Dealer feedback has been clear – continue to work to improve the business environment for everyone involved in the equipment industry."

Dealer feedback has been clear – continue to work to improve the business environment for everyone involved in the equipment industry.

Promoting the principles

While the board's adoption of the key principles is a relatively new approach to dealer-manufacturer relations, the need for these key values continues to move forward the idea of the association's initial attempt of developing model legislation.

"We have started sharing our principles with manufacturers and they clearly see our position and priorities. From our perspective, this is a good place to start the discussion. Through the key principles, we also establish a stronger foundation for model bill language," says Schmeiser. "We also have a great track record of open communication with manufacturers and, to their credit, some want to have this conversation with us. We were able to reach consensus in the past on language and I think the key principles give us the necessary foundation to achieve agreed upon model legislation language."

"Anytime a framework/template can be used to start or continue discussions, the likelihood of success rises exponentially," adds Butler. "Legislators have local constituent-specific issues to resolve. However, the business environment tends to be similar over larger geographic areas and model legislation is a great way to develop consistency and ease efforts that may require legislative solutions and reduce conflicts with manufacturers."

"Western's mandate is very clear," concludes Schmeiser. "We are an advocacy association and we will continue to invest in advocacy as we understand the importance of this to our members. All of our advocacy efforts come from the grassroots – from the members up to our state/provincial advisory committees and then to the board. This process ensures that we focus on the issues that are important to our members. The association is committed to be there to help achieve this by continuing to be the voice of dealers, whether in the legislature or a manufacturer's corporate office." WED

WESTERN
Equipment Dealers Association

Dealer/Manufacturer Relations
KEY PRINCIPLES

1. Termination of Dealer Agreement

a. Good cause must be required (i.e., a substantial violation of an essential and reasonable term that the manufacturer consistently enforces)
b. The dealer must be given notice and a reasonable opportunity to correct the problem subject to very few exceptions where the issue cannot be corrected
c. Market share defaults must provide for a significantly longer cure period and market share standards must be reasonable and accurate

2. Substantial Change in a Dealer's Competitive Circumstances

a. Same principles on good cause, cure period and market share apply to substantial changes in a dealer's competitive circumstances
b. The terms of the dealer agreement do not impact the determination of whether a dealer's competitive circumstances have been changed
c. Primary focus of restriction is on activities that adversely change the ability of a dealer to compete with other dealers supplied by the same or affiliated manufacturer
d. Significant events, such as termination of a single store (without terminating dealer agreement), may be specifically defined to be substantial changes in competitive circumstances

3. Inventory Repurchase Requirements

a. Repurchase required upon any termination or store closure
b. Repurchase prices must be based on a dealer's investment in wholegoods and attachments and the current net price for parts
c. Repurchase requirements apply to unused/undamaged inventory with additional requirements to purchase demo/rental units with appropriate adjustments
d. Repurchase obligations relating to other significant dealer purchases from manufacturers may be appropriate (e.g., special tools, business systems and signage)

4. Ownership Transfers

a. Transfers of non-controlling ownership interests should be permitted without consent
b. Transfers of controlling ownership interests to trusts or family members for estate planning purposes should be permitted without consent as long as the CEO (or equivalent) does not change as part of the transfer without manufacturer consent
c. Transfers of controlling ownership interests (or of dealerships and related interests in dealer agreements) to non-family members subject to manufacturer consent, but (1) consent cannot be unreasonably withheld, (2) reasons for withholding consent must be communicated in writing in a timely manner and reflect consistent standards and (3) the manufacturer has the burden of proof to establish that consent was reasonably withheld

5. Management Changes

a. Manufacturer consent to a management change is limited to a change in the CEO (or equivalent)
b. Manufacturer consent to management change subject to same limitations as in 4(c) above relating to transfers of ownership interests
c. Manufacturer must provide a reasonable period for dealer to hire replacement CEO

6. Amendments/New Dealer Agreements

a. A dealer agreement cannot be amended without the dealer's specific written consent to that amendment
b. A new dealer agreement will not be applicable to a dealer without the dealer's specific written consent to that agreement
c. No adverse action may be taken against a dealer if the dealer does not consent to an amendment or new dealer agreement and the dealer's refusal to consent will not constitute good cause for termination of the dealer agreement or a substantial change in the dealer's competitive circumstances

7. Purity

a. A manufacturer may not restrict a dealer from purchasing products from other manufacturers, including requirements relating to separate facilities, personnel, financial statements or capital structure
b. A manufacturer may not condition the approval of the sale of a dealership or transfer of controlling interest based on the dealer's agreement to a restriction prohibited by 7(a)
c. Exception from restrictions may be acceptable if narrowly construed and the dealer is given an exclusive territory in exchange for agreeing to the restriction

8. Warranty Procedures

a. Dealers must receive fair compensation for work performed based on dealership's normal practices for non-warranty work
b. Payment must be paid within a reasonable period of time
c. Warranty procedures to be satisfied for payment must be reasonable and allow dealers an opportunity to correct deficient applications for payment
d. Audit periods for warranty claims must be limited to reasonable periods of time

9. Inventory Ordering

a. Inventory ordering requirements should not be permitted, but manufacturers may measure performance through appropriate market share standards
b. Appropriate limits on discrimination in pricing and filling orders are important

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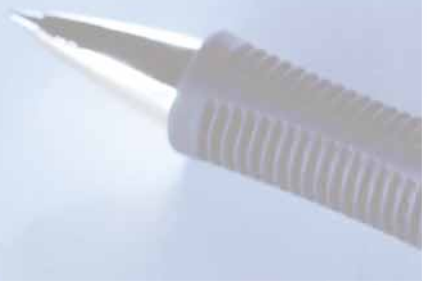
The principles are available now on Western's website at https://www.westerneda.com/advocacy/industry-relations



Marketing approaches keep Sydenstricker top of mind

By LYNN GROOMS

High-School football games, ladies' night events, service specials, fairs, Facebook and more… they all keep the marketing department hopping at Sydenstricker – a John Deere dealership with 11 stores in Missouri.

Then there's the planning and evaluation of marketing programs to determine the most effective approaches to reaching Sydenstricker's agricultural, residential and construction equipment customers. Leading the multi-store dealership's marketing department is Lee Ann Sydenstricker, whose grandfather, Ralph Sydenstricker, launched the dealership in 1944 in Paris, Missouri.

Prior to joining the dealership nine years ago, Lee Ann Sydenstricker worked in sales and marketing in the television industry. She earned a degree in communications and media studies from Southern Methodist University in Dallas.

As vice president of marketing, Sydenstricker oversees the marketing program for the dealership's 11 stores, which serve customers in 41 of Missouri's counties. The company serves agricultural equipment and residential equipment customers in small towns around north central and eastern Missouri. That includes small-property owners in St. Louis and surrounding suburbs.

Different markets – different strategies

Those different market segments require a variety of marketing strategies, Sydenstricker said. "We have a wide variety of customers with different property and equipment needs," Sydenstricker said.

Just a few of the many approaches designed to keep Sydenstricker top of mind with customers and prospects are:

- Donating John Deere Gator utility vehicles or other equipment for high-school sports activities, tractor pulls, county fairs, craft shows, and other community events
- Digital advertising targeting urban customers shopping on the Internet
- Hosting ladies' nights at four locations during holiday time, offering food and drink while shoppers can take advantage of specials on toys, tools and other merchandise
- Hosting a day with Santa Claus at all 11 Sydenstricker stores. Some multi-generation families have made Sydenstricker "Santa Day" an annual tradition
- Refreshing the dealership's Facebook page at least five times per week with interesting posts. The Facebook page features harvest photographs, customer photographs, inspirational quotes, employee news, service specials, videos and more
- Regularly updating www.sydenstrickers.com, promoting equipment, service and parts specials as well as posting a blog
- Promoting products using YouTube and Instagram

The immediate results and affordability of Facebook make the social-media site one of the most cost-effective marketing approaches, Sydenstricker said.

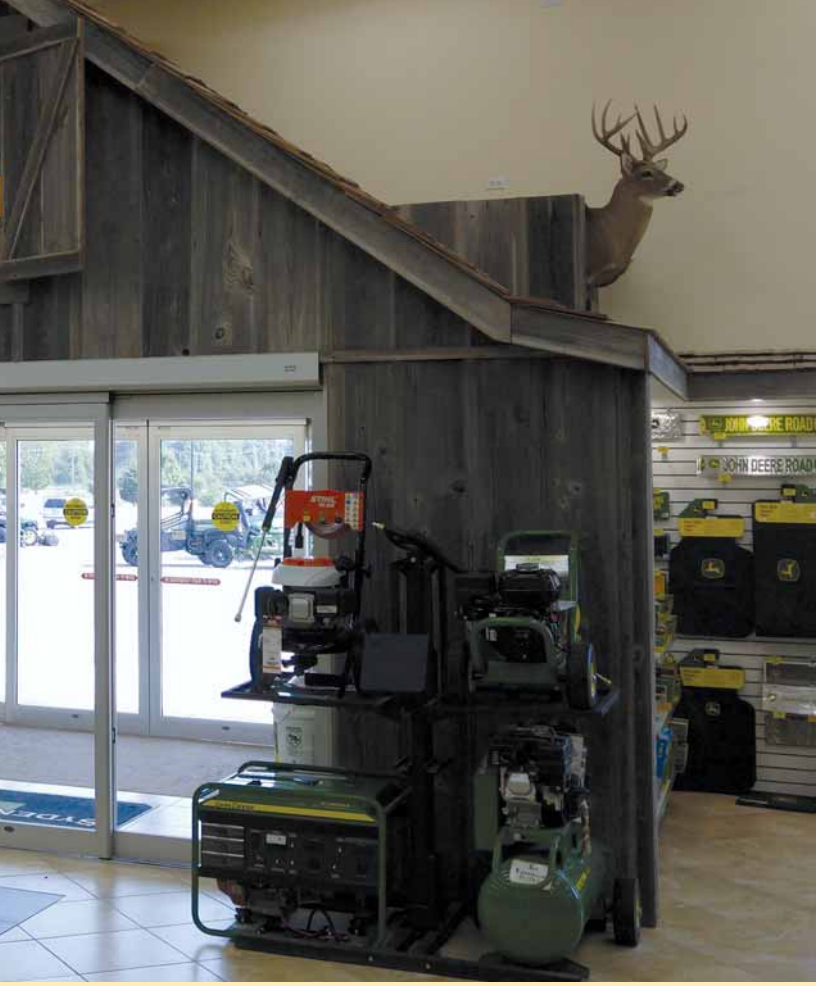
"You can immediately see who is responding and interested in an event or promotion on Facebook," she said.

From the "app" store

The dealership also was one of the first equipment dealers to have a customized "Sydenstricker app" that customers can use to schedule a service appointment, view used equipment or see special promotions at their closest dealership on either Android or iPhone.

Sydenstricker regularly meets with the dealership's store managers to develop sales, parts or service specials, or to plan new-product

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



Visitors to Sydenstricker walk into and out of the dealership through remnants of the family farm. Connie Sydenstricker, Eddie's wife, came up with the idea to use wood from an old barn to create this entryway into the dealership's showroom in Mexico, Missouri.

promotions. They work together, planning and scheduling events throughout the year to increase equipment sales.

The marketing vice-president also regularly participates in calls about new John Deere promotions, and utilizes opportunities for cooperative advertising with the manufacturer.

"We'll piggyback on Deere's national advertising campaign during high-profile events like the Final Four basketball championship or Kentucky Derby, and promote national campaigns on a local basis," she said.

The Sydenstricker marketing department also develops a quarterly package of marketing materials that the dealership's 70 sales representatives can implement across the company's 11 locations.

Sydenstricker said that the dealership has had especially good customer response to its annual customer-support guide, which is published each November. The book includes information on equipment, parts and service specials, store events, and contact information.

"The greatest reward of my job is planning a successful event that our customers enjoy and that helps our bottom line," Sydenstricker said. WED

Eddie Sydenstricker, president of the dealership, is flanked by his two daughters. Lee Ann Sydenstricker (L) is vice-president of marketing and Kim Sydenstricker (R) is assistant to the CEO and handles public relations.

Sydenstricker

Established: 1944

Location: Mexico (main office), Macon, Rocheport, Kirksville, Chillicothe, Palmyra, Moscow Mills, Curryville, Tipton, Hermann, Dutzow

CEO: Eddie Sydenstricker

Employees: 300+

Major line: John Deere agricultural, residential and construction

Other lines: Hagie, Honda Power Equipment, Stihl

Website: www.sydenstrickers.com

Integrated solutions staff Regan Mudd (L) and James Pate (R) program the command center on a Deere S-670 combine.

Prospering with three equipment turns – *yeah, right*

By TRENT HUMMEL

Well, I did it again. I got worked up and shot off my mouth. Let me explain as I apologize.

At the Omaha Dealer Minds Summit in August, our panel discussed various wholegoods commission structures, which are driving used equipment sales and increasing turns. We were the last group to speak at the two-day event hosted by *Farm Equipment* magazine.

Over the two days, there is always lots of time to visit with old and new friends. In the course of my career, I have attended many manufacturer and dealer events with owners and employees and most are willing to share their issues. These are not only used inventory issues but issues throughout the dealership.

Two days of hearing the same stories about the same problems can grind on a guy. These are the same things I heard a few years ago and, in some cases, a decade ago. My first mistake was asking, "What are you changing in order to get a different result?"

The most common response was, "Nothing too different, would not want to shake up the store too much. What we are doing has allowed us to survive." You can imagine the bubbling point that brought me to.

If we've learned anything about the used iron game in recent years, we've learned that change is a must in order to survive and just maybe we might prosper in the years ahead. Status quo is not going to move our dealerships ahead.

On the surface, the comments made in my presentation may have appeared to be aggressive – and likely they were aggressive. However, how are we going to drive home the message to stop sitting on your hands?

My intention was not to slam but to challenge everyone to ***think differently*** and to change in order to improve.

As dealership owners, my partners and I were not any smarter than anyone else in the industry. We've experienced cash flow issues and were forced into ***thinking differently*** about used equipment. As youngsters, we'd been brainwashed from hearing "too much used iron for too long will drive a dealership to bankruptcy."

Here's the challenge we are giving dealerships. Double the dealership's used equipment turnover rate in the next three to five years. The starting number should be based on the 10-year average used equipment turnover measurement.

Why is it based on a 10-year average? It's because over the last two or three years the new and used equipment turnover rates may have been distorted. I think we can all agree that wholegoods sales have not been normal the last few years. What is normal? We need to adapt to whatever the market throws at us.

Many dealerships are running an average used equipment turnover rate under two and many under one.

By 2021 or 2025, will dealerships survive with a used equipment turnover rate of two?

The cash flow focus

Year after year, cash flow demands do not seem to diminish. If anything, we will either need more working capital to maintain our current level of wholegoods sales or we could use our working capital more efficiently.

Across the board, whether you are a single-store or multi-store location, cash flow needs will increase. Likewise, as equipment costs increase, cash flow needs will increase. Survival at any dealership size will be about cash flow management.

We have worked with a 10-location dealership that began ***thinking differently***. The dealership chose not to have its department managers focused on either the income statement or the balance sheet.

Within that dealership, senior and department managers focused on the monthly department cash flow analysis. For the company, ***thinking differently*** started with needing cash flow for healthy, sustainable growth.

The dealership had 10 locations with three departments in each, totaling 30 departments. Historically, senior managers reviewed the monthly cash flow of the company as a whole.

Many times during the year cash was scarce. Realizing cash flow comes from the departments, a more direct focus on the departments was needed to produce positive cash flow each month. A cash flow objective needed to be developed and put into place.

Each department manager was approached with a department cash flow analysis. Senior management simply asked, "Are you or are you not going to generate positive cash flow for the company this month?"

You can guess how well that approach went over. You guessed it – not worth a tinker's damn. The idea was still good but the approach was not. Senior management tried a second run at establishing a cash flow objective.

Senior managers, along with department managers, conducted monthly in-depth reviews of each department's balance sheet, income statement and cash flow analysis.

Most would think, backed with all of this information, that any department manager should quickly understand the senior manager's push for cash flow. This was open-book management at its finest.

Why did this not reinforce the objective of increasing cash flow? Senior managers discovered their department managers did not understand financial numbers and measurements as well as they thought.

The in-depth reviews of the balance sheet, income statement and cash flow analysis were over the department managers' heads. Their bodies were in the boardroom but their minds were overloaded resulting in another failed approach.

The idea of having each department focused on cash flow management was still a valid and sol-

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

order to get a different result?

id objective, but with the "three strikes and you're out rule," senior managers were down to their last attempt to hit it out of the park.

Let's review why this objective had not taken hold. The first attempt was by force. They jammed the idea down the throats of department managers. They learned you cannot manage people this way.

The second attempt was to provide extensive reports about each department's metrics and numbers. Employees were overwhelmed with information, equaling no positive results.

In polling department managers throughout North America, we found that more than half did not understand financials to a level where they could make operational changes based on the department's metrics.

In sales and marketing, less is more. Isn't that what they needed to do? Sell the idea to the department managers. They didn't follow the "less is more rule" and they missed their mark. They provided too much financial data.

Senior managers needed their department managers to get engaged in the cash flow objective. To ***think differently*** at the department level required the senior people to also ***think differently***.

What, why and how

We developed the "what, why and how approach" to selling an idea to any employee. This management formula has worked for many managers selling ideas to employees about anything.

The goal should always be to get the team engaged in an idea or objective. The more people focus on the same objective, the more ideas that will be produced. From those ideas, there will be results.

Step 1 – What is the objective? Explain it.

For example, we wish more of our employees understood the targeted objective. What are the numbers that go into the objective's formula?

Empower, or at least include, the employees in setting the target. In reality, employees or department teams are the driving force in a department's objective.

Often employees will shoot for the stars in selecting a targeted objective number. They have no idea how far they can or can't go. Who are we to quash their high targets?

Take ambition over education on any given day. We have no idea of how far employees can go with ambition. Employees have no idea how far they can go with ambition.

If the team does not believe the target can be met, as a manager and coach, you may need to lower the target. Remember, objectives need to be attainable for the team to buy in to the idea.

Step 2 – Why and what is the concept behind the objective?

This is likely the biggest step to gaining employee buy-in when selling an idea. Get the team engaged. If employees do not understand, their initial thoughts might be "Looks like more work for me so management can make more money."

A big part of a manager's role is coaching and we need to get better at it. If we intend to sell our ideas, we need to research and study other industries that use similar objectives. Being a student is the best training for being an A+ coach.

Step 3 – How are we going to meet or exceed the objective?

There are a variety of methods for hitting the target. There are dealerships that will dictate the "how to" to the department team and have some success if the training is thorough on why the objective is needed.

However, the most-widely used method for obtaining the objective is for the manager to participate in the discussions regarding ideas on "how to" hit the target.

This seems sensible but managers often find it difficult to draw "how to" ideas out of employees. It may be because they have not fostered a collaborative management style.

Another possibility is that employees present ideas but are not acknowledged for them. It's even worse if their ideas are quashed as fast as they are spoken. Are the employees given credit for their ideas?

By giving credit to employees for ideas, this method can be successful when the manager facilitates a meeting versus leading a meeting. Managers should be the ones writing everyone's ideas on the whiteboard.

The best managers share just enough of their experiences and knowledge to draw out everyone's ideas. They should be greasing the wheels and allow the creative energy to flow.

One highly effective but seldom used method of getting "how to" ideas generated from employees is for managers to not be present for the creative process at all.

In this scenario, managers should explain Step 1 and Step 2 and then ask, "How are we going to meet or exceed objectives?" and leave the room.

By leaving the room, employees will feel comfortable discussing the "how to." You will discover your next leaders from their contributions and leadership. The manager may not be in the room but will hear who the rock stars are.

With this approach, no employees feel judged by the manager as they share their thoughts with the others. Ultimately, all ideas are presented as a team and together they move to the "how to" and activity.

Now, just to let you know how that 10-location dealership made out. Its senior management sold the idea of the increasing cash flow objective to its department managers.

The department managers took on a challenge – to never have a negative cash flow month. This challenge has become a friendly bragging rights competition among the department managers. No manager or employee wants to be working in the department that loses money.

An added benefit is that departments share their best practices with each other. Among the department managers, there is a sense to assist other departments in attaining a monthly positive cash flow. There is now a team focus throughout the company.

Sticking to the same old ways of thinking produces the same old results. In order for these departments to hit their objectives of positive cash flow, ***thinking differently*** was their "top of mind" thinking.

There were some creative and crazy ideas. All were tried. Some worked. Some needed molding. Some were thrown out. But when the focus is on cash flow and employees are allowed to participate, it makes life as a manager so much easier and it'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.

WEDA 2017
INTERNATIONAL CONFERENCE
NOV 29 - DEC 1, 2017

Once in a while, the second time is the charm

WEDA's International Dealer Conference gets high marks

Two years ago, the Western Equipment Dealers Association held its first International Dealer Conference. It was the first conference following the mergers of three dealer associations that served Canadian and U.S. dealers.

J.D. Gervais, Farm Credit Canada

Like many things, the first go around was a good conference but the association's board wanted to see more in the form of better speakers, better programming and more dealer participation. The 2017 conference delivered on all counts.

Attendance was up 35 percent. There was a more balanced mix of Canadian and U. S. dealers. The lineup of speakers was terrific and the various discussion panels, which included dealers, manufacturers and staff, were excellent. The association even launched a WEDA conference app for program updates and a way for attendees to reach out to each other. The app was downloaded by nearly 100 percent of attendees.

Needless to say, the conference was a success but the WEDA board and association members want more and more is already in the planning stages for next year. Yes, there will be a third conference but the second time was the charm.

Members who didn't attend missed out on plain talk from an economist, dealers, manufacturers, and staff.

The economy

You don't need to overhear whispers around a water cooler to know the equipment economy has been chilly the last couple of years, especially in the U.S. But J.D. Gervais, vice president and chief agricultural economist at Farm Credit Canada, said one of the economy's key indicators – personal disposable income – is "actually very strong and will remain in 2018."

He also said that the picture of world economic growth is also pretty strong. "If you think of all the commodities, from oil to ag, that picture is driving a lot of the optimism."

But Gervais cautioned there is something odd about the current U.S. expansion. He says in the 33 business cycles on record since the 1800s, the U.S. is experiencing its second longest expansion in history (and it could become the largest) but it's also the weakest.

He said the source of the expansion is the labor market. However, what puzzles Gervais is the U.S. is bucking the countercyclical trend that when jobs are scarce, growth and wages go down. But, in this current expansion the unemployment rate has gone down but wages have stayed flat and wages are "a big driver of inflation expectations."

"If wages are not expected to grow like they normally would, then that sort of brings inflation expectations down, which makes it tough to push interest rates higher."

In Canada, Gervais said the most noticeable problem is consumer debt, which he said continues to grow. He said after the U.S. financial crisis, "consumer debt shrank quite a bit but it's still growing in Canada and it can't go on forever."

He added, though, that debt concerns are overblown to some extent and other countries with large debts, such as Brazil, have issues not seen in North America. He said you have to consider the distribution of the debt within the economy – who owns it, who carries it and the disposable income of those in debt. He said Canada's debt picture isn't as alarming as some might think but, like the U.S. where debt has been reduced, Canadian debt needs to be corralled and consumer debt needs to come down with respect to income.

With regard to agricultural cycles, Gervais says they're unpredictable, even though they're measured in five-year increments. On the downside, he said we're still in a depressed environment and he doesn't think it's going to improve really fast. On the positive side, he says the industry has ways to actually maintain and increase agricultural receipts, although he cautioned 2018, which expects to be stronger, could still be relatively flat.

There is concern, of course, whether the U.S. will experience another downturn in the farm economy that could mirror the devastating scenarios that played out in the 80s. "What we've learned with the most recent downturn," noted Gervais, "is that how you approach the downturn in the farm sector matters a great deal. Equity positions, working capital, liquidity – all those things from a financial standpoint show a much stronger balance sheet than what we saw in the 80s."

ALTHOUGH Gervais didn't predict an immediate windfall for the industry, he suggested the indicators suggest a stronger equipment economy will surface in 2018. Dealers, especially those in the U.S., hope Gervais' optimism is on the mark.

Dealer Panel 1

Conflict is as old as the planet. As the panel on interdepartmental relationships noted, conflict is a source of frustration and, according to Dr. Larry Cole, "anyone who thinks it's normal is burning money."

Cole, an industry consultant and trainer with the association's Dealer Institute, has been working with equipment dealers for more than 15 years and he says the key to eliminating conflict requires a

Dealer Panel 1 *(Left to right)* Shawn Skaggs, Livingston Machinery; Dallas Smith, Western Tractor; and Dr. Larry Cole, WEDA Dealer Institute. Jim Wood, Mountain Equipment and WEDA board member, moderates the panel.

change of thinking. He says research shows that conflict can reduce efficiency within an organization by 25 percent.

But it's the money that's lost that makes conflict so detrimental. Cole worked on a study with the association's Michael Piercy, who's also with the Dealer Institute. Using an average of $5,000 an hour to operate a dealership over an eight-hour day, Cole said they determined conflict costs dealers $1,250 per hour when you factor in the 25 percent loss of efficiency. That's $10,000 a day. "It takes time to argue… and it's a waste of time." Plus, added Cole, the usual after-argument griping can have an effect on morale and production – more money burners.

According to Cole, conflict occurs for various reasons, including ego and stupidity. For example, parts and service employees have different needs but their mission should be to help each other succeed but that's not always the case. He said one department may not understand why the other does things this way or that way, which can lead to conflict. He said this is where brainstorming would help.

He said brainstorming should include all stakeholders in a business and they should all understand the issues and have the facts. "Decisions should be driven by vision, mission and values and they should define a mutual purpose, which should be a desire that all departments are successful," said Cole. "Brainstorming is one of the most underused management tools. I'm a strong believer that collective intelligence is smarter than any one of us individually."

Shawn Skaggs, vice president and CEO of Livingston Machinery, said he relies on three basic principles to reduce conflict within his company that operates four locations in Oklahoma and Texas. Those three principles are education, communication and trust.

He said it's important to educate employees about what makes the dealership tick, why the other departments do what they do and how they do it. He said employees are made aware of departmental goals, performance measures and standards. He said quarterly game-plan meetings are used to disclose financials and revenue of the company, which is employee owned.

With regard to communication, Skaggs said it's the most important thing in any dealership. He said everyone in the company needs to know what's going on. "As seriously as we all take it, we can never take it seriously enough." He said when there is conflict between employees, poor communication is usually at the heart of it.

He said it's vital that all employees know how the business is doing and how each department is performing. He said weekly emails update each department on sales and he said the dealership also provides a way for employees to constructively critique other departments or who to contact if there are questions about other departments.

Skaggs added Livingston Machinery works hard to establish trust between employees, between departments and between stores. "Trust begins with follow through on commitments. When trust is broken," said Skaggs, "people remember it."

One way Skaggs' dealership builds trust is to conduct teambuilding events that are not related to business. Skaggs said nonbusiness events allow employees to speak with each other about things other than business and to see someone as "a real person who is just like them… someone who wants to be successful just like them... someone who wants to help the business just like them... who wants to do well just like them."

"If employees can see each other as people and not just somebody on the other side of the parts counter or office wall," added Skaggs, "it helps to build trust, employees start to understand each other."

Skaggs concluded that management consistency in how things are handled is another key to building trust and retaining it.

Dallas Smith is general manager of Western Tractor, which is a merged quartet of dealerships in southern Alberta. Smith noted that merging one family dealership with another three-store family dealership into one name represented a considerable cultural change for managers and employees. He said one of the first tasks was to break down the silos employees built around themselves. With 165 employees, that's a lot of silos to topple, especially when a lot of long-term employees become entrenched. He said two current employees have been with the business for 40 years.

Smith said the lack of communication was noticeable, that everyone seemed to be working for personal goals. He said there was little interaction between departments and morale was low. "We were wasting a lot of time because we were fighting all the time."

As a result, Smith said in the early days of Western Tractor, the dealership had a culture of complacency. He said market share and profit were suffering and there were what he referred to as "terrorists" in the organization, people who always try to cause problems and bring down what you try to change for the better.

After breaking down the silos and moving out the "terrorists," Smith said the dealership created a system for evaluating the passion and commitment of employees. He said employees were put into four categories – dead, job, career, and calling.

Those in the dead and job categories were determined to be paycheck collectors and not committed to the dealership. Those peo-

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ple were weeded out. For those remaining, Smith said Western Tractor focused on training and development of management staff and employees. He said the dealership also defined its visions and values. "We never had that on paper," Smith admitted.

He said consultants, including Dr. Larry Cole, were used and the process was relatively simple. Once it was written down, said Smith, "it changed the movement of our organization. It's something we have on our walls in our dealerships for everyone to see and it's something we use as an accountability tool."

Once the visions and values were penned, it set the course for Western Tractor to create clear expectations, to give employees something to focus on and to change their thinking from just having a job to building a career.

Smith also said the process of turning a business culture in a positive direction is transparency. "It's an uncomfortable place to go originally but transparency is key to the change of culture in an organization and moving people to another level." He said being open gives employees a sense of where the dealership is week to week, month to month and year to year.

With transparency, noted Smith, comes accountability. He said it's not just what the boss says or how a department performs, it's a matter of peers holding each other accountable for the success of the dealership and pushing back when people don't perform within the framework of the dealership's visions and values.

Manufacturers' Panel

Perhaps the most anticipated panel discussion of the conference involved representatives from major equipment manufacturers. Six people took the stage and each person provided comments about the state of the industry and what each company's dealer network would look like in the future.

The panelists included:

- Joe DiPietro – AGCO
- Jim Walker – Case IH
- Jason Tucker – John Deere
- Todd Stucke – Kubota
- Cleo Franklin – Mahindra
- Bret Lieberman – New Holland

With a few twists, the six panelists generally agreed on the state of the industry. Sales over the last 36 months, especially in the states, have not been robust. However, with the exception of strong sales in Canada (something all agreed on), the panelists also agreed they were hopeful the optimistic economic comments made by economist J.D. Gervais will hit the mark in 2018.

While several panelists acknowledged their company's broad product base insulated some manufacturers from relying too heavily on one industry segment for revenue, most expect the opportunities for retail and service growth to improve next year and into 2019.

The discussion about contracts usually makes people nervously clear their throats and Jim Walker, Case IH, said recent changes to the company's contract resulted in some push back. But the six panelists offered articulate explanations about how the market, which is constantly changing, can and will factor into revising agreements and the association will continue to evaluate the proposed changes.

Obviously, manufacturers want their dealers to have long-term business development plans and the resources to serve their customers. But if anyone expected the panel to put a number on how many dealers will be around five, 10 or 20 years from now, someone walked away disappointed.

Only one panelist suggested consolidation could be a factor with his company's dealer network but he added it would be driven more by dealer principals rather than company mandates. He said dealers who don't have succession plans, financial resources to support the brand long term and a strong commitment to embrace technology to serve a more demanding customer base, might consider an exit strategy… but that would be something between the dealers and the manufacturer.

Perhaps the most interesting question posed to the panel centered on what three things dealers should focus on in the future. Again, there were similarities in the responses but the content of the responses was worth a listen.

BRET LIEBERMAN, New Holland North America, said dealers will need to 1) keep pace with technology, 2) increase their knowledge of products (and know more than customers who are getting fat on product information from the Internet) and have the ability to service those products, and 3) grow their parts and service business. "Customers are going to rely on us, the manufacturer, for reliable equipment solutions; they will rely on dealers for dependable service if there is an issue."

Cleo Franklin, Mahindra North America, said his company wants its dealers to invest in CRM (Customer Relationship Management) to help a dealership understand the value of its customers from end to end. "It takes so much effort to generate a lead and then make that a prospect. But once they become your customer, the question is not to get them to buy again but how to get them to be your salesperson and advocate for you." Franklin also said dealers need to sharpen their digital presence. He said brick and mortar appearance is important but so is "click and mortar" and how dealers appear online could determine whether customers come to your store. Franklin also encouraged dealers to focus on employee training to service and support their customers.

Todd Stucke, Kubota Tractor Corporation, echoed the sentiments about customer needs, technology and people. "The customer out there is changing. If you look at the different segments, the way customers receive their data, the way they want to interface with you, and the way they want to interface with the manufacturer is different." He noted the technology today is so much different and we – the industry – have to work together to harness the technology and train ourselves fast enough to keep up with it to create value. Lastly, Stucke said at the end of the day it's all about the people. He said both dealers and manufacturers need to find people who will commit to this industry "to

Bret Lieberman,
New Holland North America

KEY DRIVERS, as viewed by manufacturers, for dealers of the future:

- have a plan to exit or expand
- be financially strong
- establish your role in the marketplace through differentiation
- recruit and retain talented employees
- know your products and your customers
- understand technology
- create a strong parts and service experience
- improve your digital presence

get things done to drive your business." But, said Stucke, "Finding people is an industry dilemma."

Jason Tucker, John Deere, picked up where Stucke left off when speaking about talent. He said talent is vital, whether it's in the parts, service, sales, or administrative side of a dealership. The issue of talent, noted Tucker, keeps people awake at night at John Deere. "Not only are the customers evolving and getting younger, their thought processes are different than what a lot of us grew up with… and they react differently." He said the industry needs people who speak the language of these new customers. He also said dealers of the future will need to be able to manage multiple facets of the business, which will include working on the ground and working in cyberspace. Finally, equipment technology, whether it's precision planting or the data spit out by machines, will need to be understood and how the information that's collected can be used with current and future customers.

Jim Walker, Case IH North America, agreed with each panelist about the need for talent in the industry and understanding the technology of the machinery and the various ways dealers and customers will access technology and use it. But, Walker also suggested the next generation of dealers will need to evaluate their value to the marketplace. He said a lot of new products will be rolled out in the near future and dealers will need to map out how to differentiate their dealerships from the competition. "Your dealership is the final piece of differentiation. You'll need to take advantage of all the products you can, making sure you're represented in the marketplace for those products and establishing who you want to be. This will give you the best return in the future."

Joe DiPietro, AGCO Corporation, agreed focusing on talent, especially on long-term employees, is vital. He said dealers should look at current employees and begin assessing who might be retiring or is close to retiring and figure out how to recruit people for potential vacancies. He also suggested having a plan in place if a key employee unexpectedly decides to move on. DiPietro also agreed a dealership's digital presence will be a factor not only with jobseekers but with customers, too. But, said DiPietro, absorption, related to aftermarket parts and service business, will be huge drivers for dealers in the future. "A better parts experience and a better service experience are primary reasons why someone would switch brands."

Dealer Panel 2

The second dealer panel at the conference centered on pricing jobs in the service department and whether to use flat-rate pricing or bill customers for time and material.

Jeff Irwin, with Brandt Holdings, is aftermarket manager of a 32-store John Deere operation. He said the dealership has nearly 300 technicians and job pricing has been a journey. He said the dealership was using the manufacturer's system as well as some of its own codes and that resulted in a "muddled mess." He said communication about the benefits of consistent pricing was poor within the enterprise… and some service department managers had a tendency to just fall back on the old way of billing jobs by using time and materials instead of standard job pricing.

Fast forward to 2013, the year Brandt purchased about 30,000 job codes. All of the codes were evaluated by the organization's service managers. "This is when we really took off on our initiative to become more consistent. What we've seen is about 50 percent of our work orders now have a job code attached to them where we can measure and really see what the impact has been with those job codes. Our goal is to get to at least 80 percent."

He said the results show an increase in labor performance of almost 10 points, which, based on the number of Brandt technicians, is about $750,000 per point. "The results aren't solely from using job codes but it was more of a focus on what we were hemorrhaging."

He said as important as defining your pricing platform, communication remains a key element of the process. "We have to communicate with our customers and we have to communicate with our technicians to get everybody on the same page so there's no confusion on quoting or scheduling," concluded Irwin.

Sean Young is assistant general manager at Young's Equipment, a nine-store Case IH operation. He said the dealership's rapid growth over 15-plus years revealed that job pricing was all over the map. He said the use of standard pricing varied. Some stores used it, some didn't, some never heard of it. Young said there was no consistency and communication between stores was poor. "It's a really poor customer experience when customers get something fixed at one store

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Manufacturers' Panel *(Left to right)* Bret Lieberman, New Holland North America; Cleo Franklin, Mahindra North America; Todd Stucke, Kubota Tractor Corporation; Jason Tucker, John Deere; Jim Walker, Case IH North America; and Joe DiPietro, AGCO Parts Americas.

Dealer Panel 2 *(Left to right)* Robin Hayes, Pattison Agriculture; Sean Young, Young's Equipment; and Jeff Irwin, Brandt Holdings.

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Dealer Panel 3 *(Left to right)* Gord Thompson, WEDA Dealer Institute; Trent Hummel, WEDA Dealer Institute; and Kelly Mathison, Kayzen Management.

for a certain price and then go to another store – same company – and get the same job done for a different price."

Young also spoke of the challenges dealing with the competing priorities of the sales and service departments. Sales wanted lower numbers for repairs, service wanted higher numbers. "We also had to deal with the usual resistance to change." Young said employees who were used to using a lot of discretion in how many hours should be charged ran into conflict with technicians who used six hours to complete a four-hour repair. All of this was made more challenging because job codes from the manufacturer were not always on the mark and some service managers and technicians weren't familiar with new job codes on newer machinery brought in for repair.

But to ignore the need to have guidelines to simplify the process wasn't an option for Young's Equipment. They eventually used the manufacturer's codes for baseline pricing and spoke with other dealers who serviced the same equipment. In doing the latter, they learned how other dealers priced repairs and what multipliers they may have used if the manufacturer's codes were not reflective of the actual time it took to make a repair.

Although consistency came about slowly, Young said. "We've got our flat rates incorporated into our business system and we're starting to see more consistency in our organization." He said the dealership also conducts annual reviews of its flat-rate times and engages service managers, service writers and top technicians for their comments about the job codes and whether the repair times are on the mark or need adjustment.

Robin Hayes is vice president of aftermarket for Pattison Agriculture. The dealership operates 19 stores. When asked to participate in the conference panel discussion, Hayes said he was a little reluctant because he's not sure his dealership has completely figured out job codes and flat rates but he doesn't think Pattison Agriculture is alone.

Hayes said the journey into standard pricing began 15 to 20 years ago when the dealership operated three stores but expansion required changes. "Not only did we add stores but we threw curveballs at our teams with business system changes, which made our job pricing journey more of a challenge."

Like Young's Equipment, Hayes said Pattison Equipment also started to see the same jobs priced differently throughout the enterprise. "That's when we started to build and adapt codes for our most common and repetitive jobs," which Hayes said actually made the jobs of service managers easier. "As the team started to use them, they actually started to like them… and it does work. We offered more consistent pricing, which resulted in reduced customer complaints and that's a bonus."

While developing job pricing codes eased the conflicts that sometimes surfaced between the sales and service departments, Hayes said management noticed that when more people got involved in creating codes, the dealership found inconsistences beyond having multiple business system platforms. They found duplicate codes with different names and different descriptions of the work to be performed. "We also had some challenges with our pricing strategy," said Hayes, "so we had to have a reset."

That reset included sitting down as a group and figure out a structure and a strategy for job codes and what the dealership had to have out of them. "We set it up with one manager and two job code writers," said Hayes. "We set goals for the quality and amount of job codes the team would do and we created real specific detailed instructions on how to format a new job code." The dealership also put a system in place where code writers could get feedback from service managers, service writers, technicians.

Hayes said the strategy and focus on consistency has worked well for the dealership and the overall labor performance has improved – and so has the bottom line. If a job is coded for two hours and it only takes 90 minutes, the customer pays for the two and what's left boosts margins and allows the dealership to have revenue to upgrade rolling stock and purchase the tools required to repair today's modern machines. He concluded by noting the buy in from service managers and service writers to use the codes has improved their attitudes because their jobs have become a little easier.

Dealer Panel 3

Kelly Mathison is owner of Kayzen Management, a consulting and training company. He also is a former dealer and current trainer with WEDA's Dealer Institute. Mathison noted that aftermarket absorption is nothing new to dealers. However, he did suggest it's an area that needs to be fully understood by the managers in parts and service (even sales and accounting), which is another reminder about the need for communication within the dealership. "It's important to the success of the dealership to make sure the departments generating the cash, namely parts and service, are contributing enough to pay the bills of your business."

Citing the association's recent *Cost of Doing Business* study, Mathison said dealers who participated in the study showed a net income of 1.34 percent, which doesn't offer much wiggle room for waste or extravagance. He then spoke of the strain on finances caused by postage, phone bills and new employees. He said just adding a new employee with an annual base salary of $40,000 would require the dealership to generate an additional $2 million or more in sales to cover that hire. He said even going over limits on mobile data usage for cell phones can result in the need to generate tens of thousands in additional revenue.

He concluded noting the aftermarket requires understanding and focus. He said customers know dealers have parts because "we tell them in our advertising." But, he asked, is that what customers re-

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Networking *(Left to right)* Mark Wegmann, John Deere, visits with Cal West, a former Deere dealer who now works for Big Iron.

ally want? He encouraged dealers to become more proactive in the aftermarket instead of reactive and be equally proactive in controlling expenses.

Trent Hummel is another former dealer who is a trainer with the association's Dealer Institute. He also works with other dealers in managing new and used wholegoods. One metric Hummel supports is one that measures used inventory as a percent of rolling 12-month revenue. "It's a really important metric that's designed to help us manage how much used inventory we should have for what we're selling," he said. "A lot of dealers have made wise decisions about used inventory based on this metric."

Hummel also spoke of controlling expenses but he said that's something everyone works on during down cycles. But, he cautioned, that dealers tend to ignore expenses during good times and get "sloppy." He said expenses should be controlled during good and bad times.

Hummel also looks closely at gross margins for salespeople. He said he doesn't want any salesperson who doesn't want to earn six figures a year. "If you have a commission structure that works properly, one that pays a salesperson at least 25 percent of gross margin, that means that person is bringing in $300,000 for you." He added that too many dealers chase away salespeople who make too much money. He said the problem isn't that someone is making too much money. He said the problem is not having a good commission structure to drive desired behaviors.

Finally, Hummel barked about aged inventory. Simply, he said dealers have to stop holding onto equipment. He said when you look after your aged inventory, you will improve your new and used turnover. "Your margin percent will be accurate because you're selling your used in the same year you're taking it in," said Hummel, "versus selling something new and selling the trade three years later."

Like his fellow panelists, Gord Thompson is another former dealer and current trainer with WEDA's Dealer Institute. Thompson, who works with the association on the *Cost of Doing Business* study, said the sluggish market has cut into gross margin by only 2 percent. That's not to suggest all is well but he noted that while gross margin has declined, expenses have gone up 17 percent. "This tells me our expense management is not up to snuff." However, he added, you can't always rely on getting ahead by simply cutting expenses, which can have an effect on how a business functions, especially if you get into personnel.

Thompson also noted the 1.34 percent net income figure from the study is mediocre at best and insufficient to sustain a dealership long-term. He said dealers need to be at 3 percent or better to remain "players" in the industry. He noted this wouldn't be easy with market share demands being made at a time when equipment sales are trying to recover. "To be profitable, we're going to have to work with our manufacturers to help them succeed. If they're not making it, we're not making it so we have to find where the common ground is and how to get there."

This brings us back to aftermarket absorption and the profitability of the parts and service departments and, according to Thompson, back to communication. He said a dealership can have a great leader but it takes more than one person to make things happen. "If you can't get your people to buy into the plan, buy into the goals, it's just not going to happen," he said.

Thompson also pointed out that in seminars he conducts for the Dealer Institute, he's been surprised by how many people who have revenue objectives and financial goals at some dealerships have never seen a balance sheet, don't understand turnover or how much money it costs to operate a dealership. "I don't think we've done a very good job bringing our staffs up to speed because very few people outside of the accounting department have ever had any training in that area."

Thompson concluded change is happening and it's something everyone has to deal with. He said those not willing to change face an uncertain future. Even those willing to accept change need to rethink their approach not only to the aftermarket but how they train and communicate with the people responsible for moving the dealership forward.

WEDA CEO John Schmeiser updated members on a list of issues, a list that is too extensive to detail here. He encouraged members to follow the association on LinkedIn, Facebook and Twitter and to read information sent by email to members.

SCHMEISER said the association is fully engaged in keeping watch on issues that may have an effect on how dealers operate their businesses and he also encouraged dealers to get involved when needed.

For members who didn't attend the 2017 conference, they missed a great opportunity to learn why some economic observers feel better about 2018, how fellow dealers have handled challenging problems within their businesses and what officials representing major manufacturers believe are key drivers for dealers of the future. WED

The second conference was a charm – **the third WEDA International Dealer Conference will be Dec. 5-7, 2018**, in Scottsdale, Arizona. Mark the dates and watch for more details or visit WEDA at www.westerneda.com.

John Schmeiser, WEDA CEO

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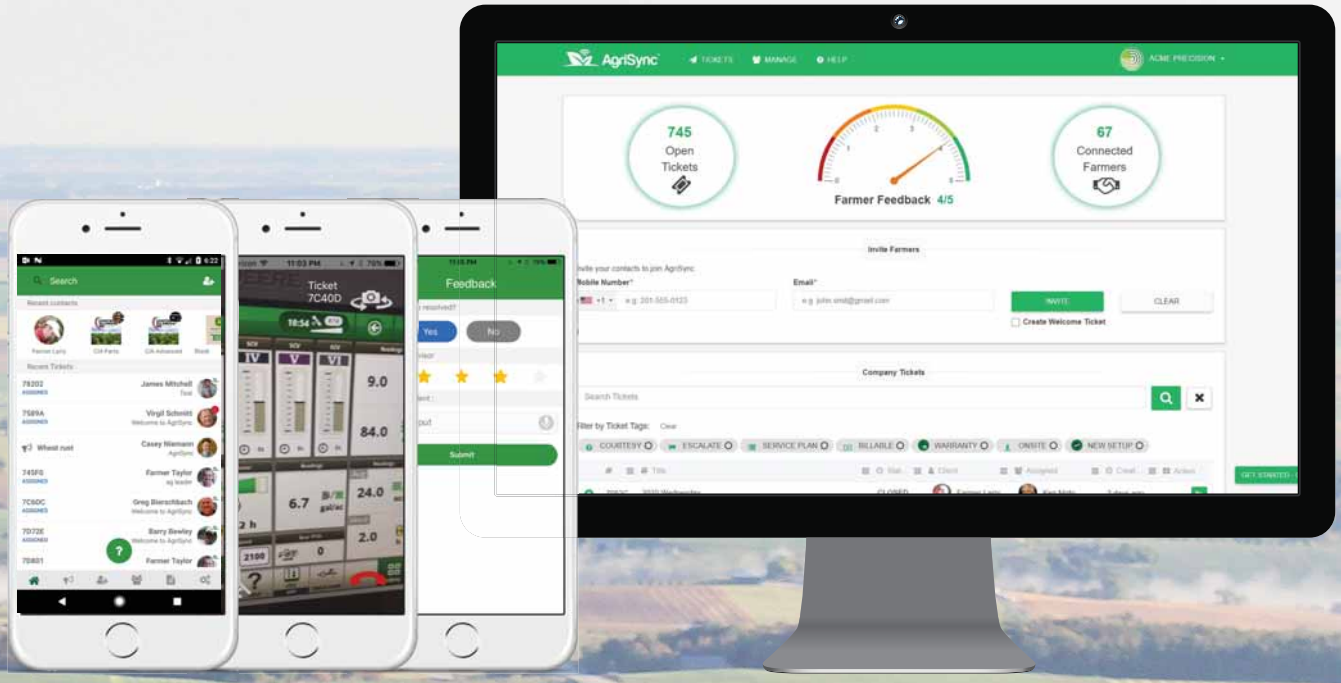

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Growing your business by developing a professional image – Part 4

By DR. JIM WEBER

As was documented in the three previous articles, dealership image is the result of internal components built around dealership culture and external components based on prior product experience and interactions with manufacturing personnel. Developing and/or modifying a dealership image requires a dealer to undertake a five step process. This process requires dealers to:

1. **Determine** their existing image; then,
2. **Formulate** their image objectives; then,
3. **Communicate** desired image to employees; then,
4. **Implement** the image activities; and then,
5. **Audit**, or evaluate the new image.

The first step in developing or modifying any dealership image is to determine the existing image. This determination should be undertaken by ascertaining how employees as well as customers perceive the image. There are essentially two ways to determine how internal and external stakeholders view the dealership. The first, and easiest, way to determine how employees feel is by conducting nominal focus groups. Employees could be asked individually to list the strengths and weaknesses of the dealership which in turn are summarized, ranked collectively, and then discussed in detail. A similar approach could be undertaken by asking employees what the dealership could do to make it a better place to work or a better place for the customer to shop.

Focus groups could also be a viable means of determining how customers presently perceive the dealership and/or what changes need to be made to make it a better place to shop. Tom Peters, in his best-selling book, ***In Search of Excellence***, written thirty-five years ago, wrote how a small grocery store in Connecticut randomly selected twenty customers each week to tell them what good things they were doing, but also more importantly, what not so good things they were doing. Dealers could undertake the same approach today with their customers to determine dealership strengths and weaknesses.

Another approach would be to use questionnaires to assess both how employees and customers perceive the dealership. Concerning employees, they should be asked to evaluate not only the dealership culture, but also the dealership climate. A dealership's culture is the framework, or social architectural, on which the dealership is built. Thus, culture is based on the values, beliefs and assumptions that permeate the dealership. Think of culture as the "personality" of the dealership. A panoply of surveys and questionnaires are readily available to anyone interested in diagnosing their dealership's culture. Two such sources are ***The Character of a Corporation: How Your Company's Culture Can Make or Break Your Business*** by Rob Goffee and Gareth Jones, and ***Diagnosing Organizational Culture*** by Roger Harrison and Herb Stokes.

Climate surveys, on the other hand, are designed to measure how employees feel about certain characteristics of the dealership that ultimately influence their behavior. These conditions could include such factors as rewards, communications, level of conformity, team spirit, etc. Simply stated, climate surveys measure how the dealership culture has impacted the way the employees feel about their place of employment. More than just measuring the "pulse" of the dealership, however, such surveys, and their results, can be used to effectuate meaningful change. While one of the first climate surveys was developed by George H. Litwin and Robert A. Stringer, Jr., and published in their book, ***Motivation and Organizational Climate***, many other such tools have subsequently appeared.

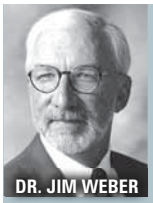
Questionnaires could also be used to assess how customers perceive the dealership. An excellent book that may be helpful in this endeavor was written by Valarie A. Zeithaml, A. Parasuraman and Leonard L. Berry and entitled, ***Delivering Quality Service: Balancing Customer Perceptions and Expectations***. This book offers the tools for measuring not only what employees and customers *expect* from a well-managed service organization/dealership, but also how they *perceive* the organization/dealership is fulfilling those expectations.

Equally important as the way employees and customers perceive the dealership's image is the way they perceive the competitions image. A **market position profile analysis**, or similar study, could be undertaken to assess each and every competitor's image and how they compare to the actual dealership's image. This data could also be helpful in determining those areas where a meaningful competitive advantage exists, thereby letting the dealership capitalize on its strengths while simultaneously overcoming its weaknesses.

Once the dealership knows where it stands, both intrinsically and compared to the competition, the next step is to formulate the desired image objectives. Formulating the desired image objectives will first require the dealer to articulate its philosophy. This philosophy is generally the result of how the dealer orients his business to filling the needs of the customer. Typically, this orientation may be either operational, cost, or market share.

Dealers who subscribe to an operational philosophy believe that optimal operational performance of the dealership will lead to satisfied customers and a significant return on assets. These dealers pride themselves on establishing plans, implementing activities and monitoring results. These dealers are likely to have incentives in place and do an excellent job in seeing that the "right people are in the right seat" on the "bus" that is headed toward prosperity. Operationally oriented dealers drive their dealership and employees toward the attainment of objectives and compensate and reward their employees accordingly. Meritocracy replaces nepotism and performance trumps seniority. The dealership culture is based on high expectations and rewards that are commensurate with performance.

On the other hand, dealers who subscribe to a cost orientation believe that the only way to improve profits is by reducing costs, or expenses. Although many dealers see this approach as the only alternative to survival during a downturn, far too many dealers have unfortunately subscribed to this philosophy even when times were sanguine. In fact, I know of one dealer who asked his man-



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

Although image may not be a panacea, it is an excellent barometer of a dealership's present position and a harbinger of future success.

agement staff to take a 10% pay cut and his line employees to endure a 5% pay cut and then two days later drove into the dealership in a new Mercedes Benz. Talk about leadership!

Dealers interested in growing their business have long recognized that to do so generally requires the courage to spend money while others are saving. For most businesses, the time to improve market performance is in a down market when the majority of the competition is in full retreat. These dealers appreciate Plutarch's maxim that "the foundation of all victory is courage." Dealers who believe in a cost orientation to managing their business are generally risk averse and will have a culture that is based on the status quo.

The last philosophy that a dealer may adopt is one built on maximizing market share. Dealers who rely on this philosophy are almost always those that lack the operational wherewithal to maximize performance and thus rely on the benevolence of the manufacturer, vis-à-vis, the volume bonus to achieve a modicum of profitability. These dealers would do well to reread a book entitled ***The Myth of Market Share: Why Market Share is the Fool's Gold of Business***, by Richard Minter.

As I have written elsewhere, "market share leaders focus on last quarter's unit sales while profit leaders look toward tomorrow's opportunities. Market share leaders focus on their prospective volume bonus check while profit leaders gravitate toward internal metrics that will enhance their bottom line. Market share leaders reward their sales force on increasing market share while profit leaders reward their managers on improving their department's profits. Market share leaders focus on appeasing their supplier or outselling their competitor while profit leaders look to satisfying their customers."

As previously written, "rather than focusing on market share, dealers in for the long haul would be better served by creating an open, informal, trust-based culture that is oriented toward high expectations with a commensurate reward system that clearly differentiates between high performers and low performers. Furthermore, future oriented dealers should have a marketing strategy that bases machinery sales on a meaningful competitive advantage as opposed to low prices that are almost always the hallmark of a market share leader." Many dealers who subscribe to a market share strategy have a dichotomous culture based on saying one thing while believing in another. They may talk about absorption rates while "pushing" their sales force to generate more sales at ever lower gross margins. Employees quickly see through this charade and are confused as to the "true" direction of the dealership.

After deciding upon an appropriate image philosophy, the dealer should then set about developing values and generating policies as outlined in an earlier article in this series. It is the policies that guide thinking as well as chart a course of action that will facilitate the attainment of dealership goals and objectives.

The third step in developing or modifying a dealership image is to communicate the desired image to all employees. Since employees are the linking pin between dealer wants and customer needs, they should be apprised of the intended dealership image. This is best accomplished by jointly creating job descriptions that stress duties and responsibilities as well as the dealership's philosophy. Additionally, regular monthly meetings should be held to not only keep employees abreast of dealership changes but also to solicit input for further improvement. Furthermore, all employees should be shown examples of all marketing campaigns before they are seen by the customer. This will demonstrate a sense of openness as well as a feeling of uniformity of purpose.

The fourth step in developing or modifying a dealership image is to implement the requisite tactical activities. Additionally, policies previously developed need to adhere to the highest possible standards. Similarly, employees, whether inside or on the road, should maximize personal selling and begin to view themselves more as machinery and/or replacement parts consultants rather than mere peddlers of iron. Furthermore, the dealer should finalize the marketing campaign by maximizing direct mail and internet marketing.

The final step in developing and modifying a dealership image is to audit the new image. This requires analyzing employee and customer perceptions which can be done as in the first step by conducting focus groups or more formally by having both groups complete questionnaires designed to elicit response. Concerning questionnaires, as part of the audit process, employees could be asked to complete a follow-up climate survey in which they are once again evaluating the dealership along several meaningful dimensions that influence their work performance as well as their level of satisfaction. Similarly, customers could be asked to once again evaluate the dealership as to the services that they expect in a well-managed dealership and how well the dealership is meeting or exceeding those expectations.

Additionally, employees should be evaluated as to how positively and successfully they have performed their duties and responsibilities as outlined in Step Two. Finally, the dealer should measure the change that has taken place. Have the changes in dealership culture effectuated a change in the way the employees perceive their place of employment? And, if so, has such change been positive or negative? Hopefully, the changes have resulted in happier employees, more satisfied customers and increased dealership profits.

Although image may not be a panacea, it is an excellent barometer of a dealership's present position and a harbinger of future success. When dealers positively select between penury and prosperity, that decision must be predicated on a professional image being in place, for without a professional image, prosperity simply becomes unattainable in most cases where marketing skills are outweighed by fate, chance or destiny.

In the highly competitive world of agricultural equipment sales, a professional dealership image will be the difference between success and failure, and winners and losers. Transforming a dealership's image will not be an easy task, but will be a necessary task for many dealers to ensure a profitable future. Such a transformation will require honest introspection and then the discipline and courage to do the right thing. To this end, choice, not chance, will determine destiny. And as General George S. Patton was fond of saying; "Accept the challenges, so that you may feel the exhilaration of victory." WED

Artificial Intelligence – Part 1

Three things you need to know

By RICHARD WORZEL, C.F.A.

Pay attention. Your life is about to be significantly changed by Artificial Intelligence (AI), whether you want it to be or not.

Every once in while something happens that tosses a huge rock into the pond of human affairs. Such rocks include things like the discovery of fire, the invention of the wheel, written language, movable type, the telegraph, computers, and the Internet. These kinds of massive disturbances produce pronounced, remarkable, unexpected changes, and radically alter human life.

Artificial Intelligence is just such a rock, and will produce exactly those kinds of disturbances. We're not prepared for the tsunami that AI is going to throw at us. AI has been the technology of the future since the 1960s, but one that always seemed just over the horizon, and never arrived. Certainly, AI was widely discussed when I got my degree in computer science more than 30 years ago.

But now AI is becoming a reality and it is going to hit us far faster than we now expect. This will lead to an avalanche of effects that will reach into all aspects of our lives, society, the economy, business, and the job market. It will lead to perhaps the most dramatic technological revolution we have yet experienced – even greater than the advent of computers, smartphones or the Internet.

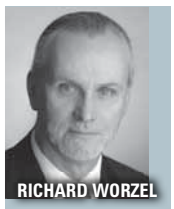
There are three keys to AI that will help to understand what's happening:

1. **AI is the Swiss Army knife of technology**
2. **AI is not a shrink-wrapped product, and**
3. **Once AI is properly established, the domino effects occur with astonishing speed.**

But before I dive into these three keys, let me tackle what AI is because there is no real agreement what the term "artificial intelligence" means. I read one article, for instance, that claimed that there are 33 kinds of AI. And, indeed, the term covers a broad range of techniques and technologies.

But in my view, they all have a central, defining characteristic. I define AI as a computer system that is **adaptive** and **can solve problems** it has not encountered before. Some of those problems are ones humans have solved – but increasingly, many of such problems are ones humans haven't solved and might not be able to solve unassisted.

With that in mind, let's turn to the three keys to AI.



RICHARD WORZEL is a chartered financial analyst (CFA), best-selling author, and one of today's leading futurists.

1 AI is the swiss army knife of technology

AI is not restricted to any narrow range of fields or areas of human endeav-

We're not prepared for the tsunami that AI is going to throw at us.

or, but will be applied anywhere and everywhere where some smarts would be helpful. The highest profile results will be things like robots and self-driving cars, but there are thousands of other places where AI will be used.

Security systems, whether at airports or a local clothing store, will use AI to identify faces, either those that might commit crimes, or those that are more likely to buy something.

It will be used to assess satellite images to locate submarines, pods of whales, which agricultural areas are producing vibrant crops and which are suffering (and hence what will happen to crop prices), or to judge how well traffic is flowing in a city and how it could be improved.

It will be used in cars and home heating systems to determine – on a second-by-second basis – how to most efficiently use fuel while keeping human users happy.

It will manage investment portfolios better than all but the most gifted humans – and be more consistent in their management results than their human counterparts.

It will work in all aspects of health care, energy management, manufacturing, industrial process control, accounting, law, weather and climate prediction, drug discovery, toy design, and entertainment, ranging from responsive, real-time virtual reality to traditional game playing.

It will help chefs design more interesting, nutritious and economical food and help hotels provide more satisfying, more profitable stays. It will watch over babies and the elderly to make sure they're safe and potential criminals to make sure everyone else is safe.

It will be used to design a unique, virtual newspaper for each subscriber that appeals to that reader's particular interests.

It will design bridges and desserts and cars and fashions and farms and teeth, and just about anything else that humans use, build or think about.

Bad guys will use it to identify the highest value targets and design cheap, effective explosive devices. They'll use it to commit identity theft at a rapidly accelerating pace – even as "white hat" hackers use it to thwart evil AI.

Politicians will use AI to identify silent voters who would be inclined to vote for them if asked – and opponents will use it to develop custom-tailored messages to make sure such voters stay home.

It will be used to identify weaknesses in opponents' armies, or their economies, or their political appeal.

And just about anything else you can think of.

AI will be used everywhere, all the time, and by everyone – whether they know it or not.

2 AI is not a shrink-wrapped product

Using AI is not easy, simple or straightforward. You can't just take it out of the box, plug it in and start getting fabulous results. It takes three major, difficult-to-achieve things: good data, smart analytics and clear objectives.

AI's are fundamentally data driven because they use data to interpret patterns and create patterns for which they can search or use to select behaviors or actions. If the data is dirty, meaning it contains errors or too much irrelevant data points, or isn't timely, which means it's not indicating what's happening now, then the results won't be very useful. This is the classic computer observation, GIGO: "Garbage In, Garbage Out."

Hence, if you're trying to get an Artificial Intelligence to help you trade stocks and using data from three months or even three hours ago, you're not going to get good results as markets don't stand still.

Smart analytics means having someone identify what patterns the AI system is looking for. If you can't show the AI how to use the data you've provided to clearly analyze what's happening, then you're not going to be able guide it to figure out what it needs to do to produce the results you want.

For instance, you can't get an AI to assess a satellite photo of a farming region and determine whether the region is suffering from drought unless you can provide the analytical tools to tell it what that looks like.

If you want AI to look at tissue samples to determine whether a particular kind of cancer is present, you need to be provided a means to tell when that cancer is present. Sometimes this can be done in a rough way – by presenting thousands of cases where the outcome is already known, then telling the AI, "*These* samples have the cancer we're looking for, but *these* ones don't." But at other times, you need to have very precise parameters to inform the AI what to search for, and how to do it, depending on the application and means of discovery.

And finally, you need to define what you consider a successful result to be. OpenAI researcher Dario Amodei showed off an autonomous system that taught itself to play Coast Runners, an old boat-racing video game. The winner is the boat with the most points that also crosses the finish line.

> *"The result was surprising: The boat was far too interested in the little green widgets that popped up on the screen. Catching these widgets meant scoring points. Rather than trying to finish the race, the boat went point-crazy. It drove in endless circles, colliding with other vessels, skidding into stone walls and repeatedly catching fire."*

The AI obviously thought its objective was simply to get the highest number of points, rather than the highest number of points while finishing the race, and not crashing and burning.

So, unless you can provide the data necessary for an AI to learn what's successful and what isn't, have the means of analyzing that data, and have clearly identified what you want the AI to do, you're not going to get very far in using AI.

3 Once AI is established, the domino effects occur with astonishing speed

AlphaGo is a software AI developed by DeepMind, a machine-learning company owned by Alphabet/Google. AlphaGo was developed to play the traditional Asian game of Go, which is much more difficult to master than chess. Computer scientists speculated that it would take AlphaGo 15-20 years to become competitive with the best human players.

Yet AlphaGo beat Lee Sedol, the world champion, four games out of five in March of 2016 – two years after it was created.

In November of 2015, a company called Kensho unveiled an AI to evaluate and summarize the monthly Bureau of Labor Statistics' (BLS) monthly employment report. The Kensho AI compared the BLS report with statistics from dozens of other databases, and produced a summary, and 13 key exhibits, along with a forecast of how it would affect dozens of investments, based on how they had responded to earlier reports. It used to take 2-5 days for an experienced and intelligent research ana-

Continued on page 24

Artificial Intelligence

Continued from page 23

lyst, working full-time, to do this. Kensho produced and distributed this report on its own, within minutes of the release of the BLS report – and does the same with many other kinds of economic and financial data.

Even the so-called "Masters of the Universe" – the highly paid, high profile institutional stock traders on Wall Street – aren't immune:

> *"At its height back in 2000, the U.S. cash equities trading desk at Goldman Sachs's New York headquarters employed 600 traders, buying and selling stock on the orders of the investment bank's large clients. Today there are just two equity traders left."*

Note that these 600 traders probably made $500,000 or more each back in 2000. Now they've been put out of work by AI.

The legal profession seems to be particularly susceptible to early occupation by AIs:

> *"At JPMorgan Chase & Co., a learning machine is parsing financial deals that once kept legal teams busy for thousands of hours. The program, called COIN, for Contract Intelligence, does the mind-numbing job of interpreting commercial-loan agreements that, until the project went online in June, consumed 360,000 hours of work each year by lawyers and loan officers."*

So, before June of 2017, lawyers and loan officers spent 360,000 hours a year interpreting commercial loan agreements for JPMorgan Chase. Since then, that specific kind of work has vanished.

ROSS is a computer system based on IBM's Watson AI platform. ROSS performs legal research and prepares legal briefs. In so doing, it has the potential to replace the work done by hundreds or thousands of paralegals and junior lawyers. Is the law profession concerned?

> *"[A recent] survey of large U.S. law firms… asked whether Watson would replace various timekeepers in these firms in the next five to 10 years. Half the respondents said it would replace paralegals, 35 percent said first-year associates. …the other interesting aspect of that survey was the response to the option 'Computers will never replace human practitioners.' That got a 46 percent affirmative response four years ago; this time around, just 20 percent. That's a huge drop."*

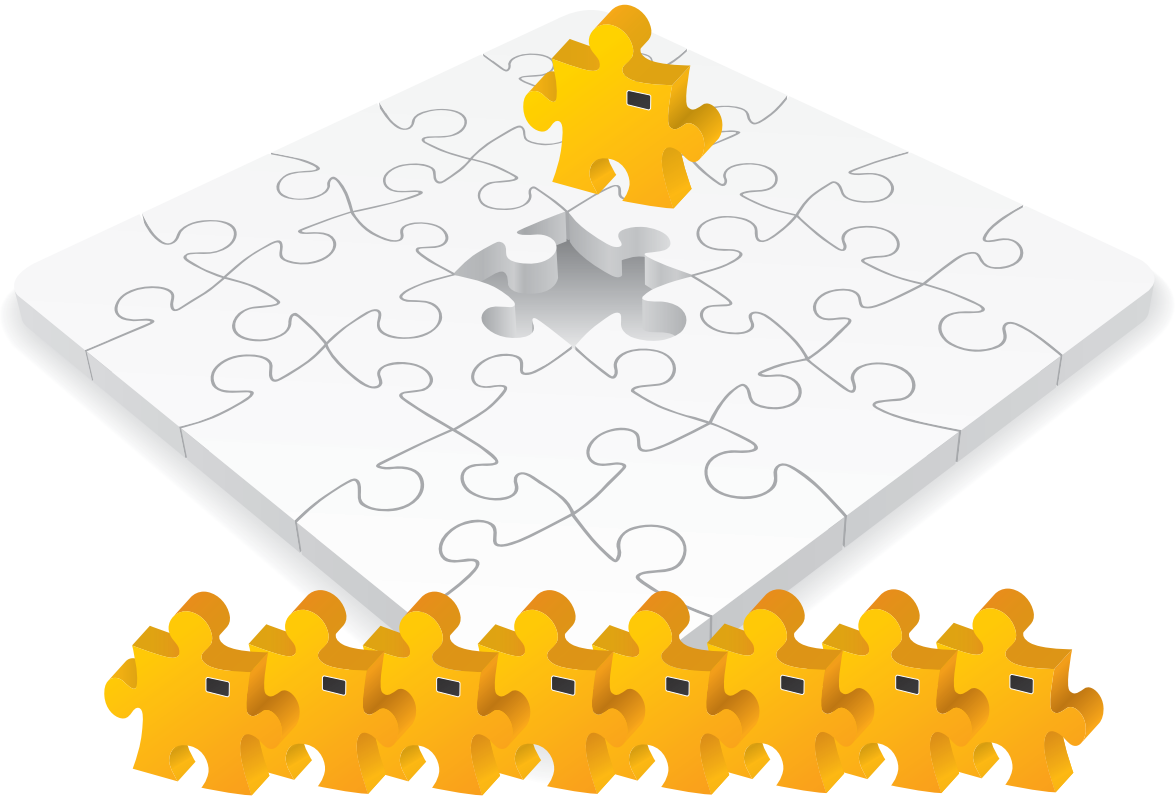
Finally, let me offer a personal anecdote. Not long ago I had a conversation with a computer scientist who has clients in the financial industry. He confided in me that most people didn't realize how quickly the domino effects cascade once an AI is properly established. "Once a front-line job can be done by AI," he said, "then usually all of the back-office jobs that support it can also be replaced. Companies have no idea how fast this is happening."

He didn't want to go public with his thoughts because he was afraid it would scare his company's clients.

So, AI is coming, and it's coming far faster than people realize and the consequences will be far-reaching. **The question is what happens next?** WED

Read part two of Richard Worzel's column in the spring 2018 edition of *Western Equipment Dealer.*

RICHARD WORZEL is a chartered financial analyst (CFA), best-selling author, and one of today's leading futurists, trend analysts, and innovation specialists. He is also a professional member of the World Future Society. Worzel helps corporations and industry associations plan intelligently for the future. His client list includes Coca-Cola, Ford, IBM, Bell, the U.S. Navy Department of Medicine & Surgery, the National Research Council, the Clerk of the House of Commons of Canada, among many others. To learn more, visit Future Search at http://www.futuresearch.com.



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.**

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Equipment Dealers Foundation

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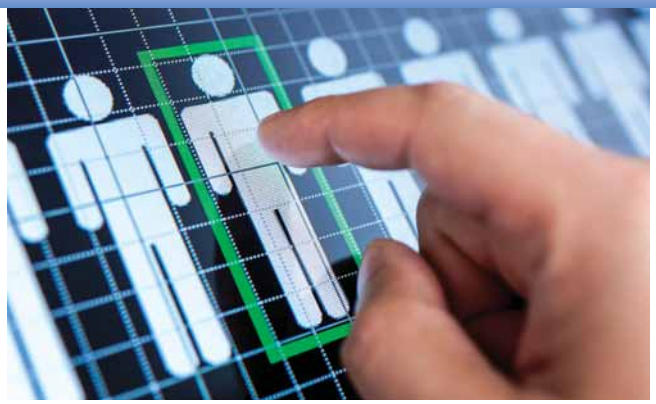
Risk Management ROUNDUP

Employment Screening

Trends and Pitfalls

By JERRY LEEMKUIL



Business in most industries continued its upward trajectory in 2017, and companies are hiring at a brisk pace. With the increased urgency in hiring, some companies have found it necessary to hire first, ask questions later. This can be risky. Employers should be aware of and minimize potential liability during their hiring process.

Background Screening

Background checks can be useful to help employers make personnel decisions. An employer may, where appropriate, ask questions about an applicant's background or require a background check. But there are some risks involved. Implementing the following may help minimize those risks.

- Be sure to consult with your attorney, and **review and comply** with federal, state, and local laws regarding background checks, as many regulate this information. For example, the "Ban the Box" regulation limits the scope of verbal and/or application questions to help ensure people with criminal convictions have a fair chance to work. It may also define the timeframe during which background checks can be conducted.
- With the help of your attorney, **create a process** that clearly outlines the checks you order (e.g., motor vehicle records, credit checks, criminal checks, drug tests, etc.) and how this information will or won't be used in employment decisions.
- In all cases, make sure your actions are **consistent but not rigid**. Define your decision-making criteria but use good judgement in assessing a candidate's unique, individual circumstances. Treating candidates consistently helps reduce the potential for discrimination.

Social Media

There is no question that social media is changing the way businesses work. The use of social media in the hiring process is becoming more common and can provide a better picture of a potential candidate. But, a person's online postings could contain many pieces of information that may be considered protected. For example, even a brief search could reveal:

- Age
- Sex/Sexual Orientation
- Race/Color/National Origin/Religion
- Disability/Pregnancy/Medical Conditions

Once you review a candidate's online profile, a court will likely assume you are aware of that person's protected characteristics. If you choose to include a social media review as part of your hiring process, here are some best practices to help reduce your risks:

- Use information available only to the public at large. Do not ask for passwords or attempt to "friend" candidates in order to access private information.
- Develop a policy that clearly outlines permitted uses of the information, sites you review, etc.
- Wait to do your search until after you've met the candidate in person.
- Be consistent – conduct the same searches at the same point in the process for every candidate.
- Ask your attorney whether you should print or save screen shots as documentation if you see something that you use in your hiring decision.
- Consider the source. There are things like cyber bullying and imposter social media accounts. You may want to give the candidate a chance to explain objectionable content.
- Be aware of and comply with federal and state laws that apply.

Keeping up on the latest trends and pitfalls in employee screening is prudent to successful hiring and hiring practices. For more information specific to your situation and state, log in to the Federated Employment Practices Network (FEPN) or consult qualified legal counsel. To learn more about FEPN, contact your local Federated marketing representative. WED

JERRY LEEMKUIL is field manager for Association Risk Management Services, Federated Insurance Company. For information, write to Jerry at jleemkuil@fedins.com or call 1-507-455-5507.

We make our culture and our culture makes us

By DR. LARRY COLE

Imagine learning about your dealership's culture from a Koi, a red-gold carp.

The ultimate size (and sometimes colors) of a Koi is determined by the environment in which it resides. What does that phenomena tell you about the effect of your dealership's culture?

Let's begin this journey by considering a dealership's culture that embraces authoritarian or centralized control. Senior leaders make decisions and tell their employees what to do. Often times the mantra within this culture is, *"I will tell you what to do, how to do it, and when I want your opinion I will ask for it."* Employees are often fearful of being punished should they make a mistake. Consequently, creativity and production are stifled.

Let's contrast this culture with the dealership that completes regularly scheduled employee surveys to monitor employee morale and conducts customer service surveys to monitor customer satisfaction. This dealership expects their empowered employees to make independent decisions. No, this dealership is not perfect but is striving to create a culture that challenges and values their employees because the CEO understands such a culture promotes productivity and net profit.

Before proceeding consider two questions. Of the two cultures we've discussed, which one would you prefer working in? Which one do you think is more productive?

How is a culture made?

The simple definition of culture is "that is the way we do things around here." Whether you like it or not, your dealership has a culture by default.

If you should happen to be the owner or the CEO, then I ask you what personality characteristics do you see when you look in a mirror? Do you see controlling behaviors? Empowering? Or, perhaps you see a CEO that avoids conflict and engages in a more laissez faire relationship with employees. Whatever you see will have an effect upon your dealership's culture.

Keep looking and examine the personality of the individuals within your management structure to begin understanding your dealership's culture. Unfortunately, many dealerships allow their culture to be defined by the whim of these personalities. Of course, senior leaders' personalities have a greater effect upon defining the dealership's culture than lower level managers. With that being said, let's suppose a first line supervisor is a "control freak" regardless of the senior leaders' personalities. Yes, this supervisor's need for control will have a major effect upon their department's culture and it will be negative.

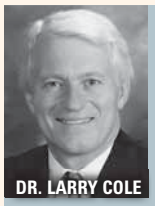
Carol Dweck, in her best-selling book *Mindset*, places culture on a continuum ranging from a "fixed" one to one of "growth." Just as the names imply, a dealership with a fixed mindset is interested in profitability, but is not focused on developing the talent that resides within the dealership. A culture of "growth" understands the dealership is a university in which employees can maximize the development of their technical and interpersonal skills.

Your culture has a major impact upon your net profits

Now the question is what can you do to create a culture that maximizes net profits? To begin with realize that it's not just going to happen because you would like for it to exist. Following are the required steps:

First, define the behavioral characteristics of a high-performing culture. That culture will include such words as integrity, trust, respect, open communication, teamwork, empowerment, humility, and engagement. You will note these words are easy to pronounce, but they are abstract. You must define the performance standards to make them living within your dealership.

Let's use empowerment as an example. Suppose you want a customer service



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

friendly culture. A primary characteristic of this culture is to delegate the authority downline to make the decisions necessary to effectively service your customers. This culture wants every employee to focus on 1) retaining your existing customers and 2) developing new customer relationships.

Yes, I believe everyone can learn to delegate authority. But suppose you're a control freak. Do you see a dichotomy with creating an empowering environment?

The answer to that question leads to the second characteristic that must be done. Your employees and you will have to change your behaviors. Let me start this discussion by saying change requires focused, hard work.

Change can be made easier by establishing a behavioral blueprint. To show you how to achieve that, let's continue our empowerment example.

Your employees must know what decisions they are empowered to make. Perhaps your employees have a dollar amount that can be used to satisfy a customer issue. Contrast that cultural statement with the one that states employees have the authority to do whatever it takes to satisfy the customer. That latter statement may cause heartburn for some dealerships.

In Summary

Let's end this article as we began talking about the Koi fish. If you want the fish to grow, then your **first responsibility** is to develop a cultural blueprint that focuses on achieving results while engaging and developing your people.

The **second requirement** is to identify the values you want to characterize your culture. Once these are defined, **step three** is to define the behavioral blueprint to show the journey that every employee must follow to create this culture.

The **fourth requirement** is that each employee must decide to integrate these blueprints into their day-to-day actions.

The **last requirement** that I'll address in this article is one of accountability. The management structure must hold itself and its employees accountable to put the blueprints to work. 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 Larry at lcole@cei.net.

WESTERN Equipment Dealer

The Western Equipment Dealer magazine is the official publication of the Western Equipment Dealers Association (WEDA).

ADVERTISER INDEX

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

U.S. – October 2017 Ag Tractor and Combine Report	October			Y-T-D October			October 2017
	2017	2016	% Chg	2017	2016	% Chg	Beginning Inventory
2WD < 40 HP	13,747	12,301	11.8	127,084	117,364	8.3	68,245
2WD 40 < 100 HP	5,854	5,750	1.8	48,140	48,405	-0.5	31,784
2WD 100+ HP	3,046	2,136	42.6	14,725	16,109	-8.6	8,622
Total 2WD Farm Tractors	22,647	20,187	12.2	189,949	181,878	4.4	108,651
Total 4WD Farm Tractors	536	466	15.0	2,037	1,936	5.2	820
Total Farm Tractors	23,183	20,653	12.3	191,986	183,814	4.4	109,471
Self-Propelled Combines	503	297	69.4	3,439	3,340	3.0	1,003

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

Traditional or Roth 401(k) plans

It's a question of when you pay your taxes

By DAVID WENTZ

Often in 401(k) enrollment meetings with employees of equipment dealerships we are asked about the differences between Traditional and Roth deferrals. First, it is important to remember that employer contributions always will be taxable.

The basic difference between employee contributions being designated as Traditional or Roth is when you pay the taxes. That said, we are often asked the question of which investment platform is most advantageous in terms of how much money a participant will have at retirement age.

In a Traditional 401(k) you contribute pre-tax dollars that are deductible from your current income and lower your current tax bill. Your money, both contributions and earnings grow "tax-deferred" until you withdraw them, hopefully after age 59½. At that time, withdrawals are treated as ordinary income and you pay taxes based on your current income tax rate.

The Roth 401(k) is pretty much the reverse. You make your contributions with after tax dollars, meaning you pay the tax now and there is no upfront tax deduction. However, in the future, withdrawals of both contributions and earnings are "tax free" at age 59½, as long as you've held the account for five years.

So we sit here and weigh two questions: pay the taxes now (Roth) or pay the taxes later (Traditional)?

Some economists have made a convincing argument that future tax rates will need to double in order for the country to afford the obligations it has made, primarily for Social Security, Medicare and Medicaid. Could tax rates really double? These same economists have made the argument that, yes, they could; and that today, we live in an era of historically low tax rates. After all, in 1943 the highest marginal tax rate was 94 percent of any income over $200,000.

On the other side of this debate, our current political leaders are advocating for the reduction of current income taxes on the middle class. Where does this leave us in the future in terms of tax rates? The answer is that no one really knows what Congress will do, if anything, to the existing rates.

Item	Roth 401(k)	Traditional 401(k)
Contributions into account	After-tax	Before-tax
Retirement distributions taken from account	Free from federal tax if occur five tax years after 1st Roth contribution AND after participant either: • Reaches age 59½ • Dies • Becomes disabled	Taxed as ordinary income in the year taken.
Required Minimum Distributions (RMDs)	Required. However a Roth 401(k) can be rolled over to a Roth IRA prior to RMD to eliminate this requirement.	Required
Level of income limits participation	No	No
Contribution limit	$18,000 limit in 2017 $6,000 additional contributions allowed if over age 50	$18,000 limit in 2017 $6,000 additional contributions allowed if over age 50

The bottom line

Therefore, the bottom line really comes down to future tax rates. If you think tax rates will be higher than they are today in the future, a participant is likely better off paying the taxes now while they are low by participating in the Roth platform. If you think tax rates will be lower than they are today, it is a better plan to pay the lower taxes in the future by participating in a Traditional 401(k). If tax rates stay the same, they are probably both about equal in terms of how much money a participant will have in their hands at retirement.

There's a lot to consider when determining if Roth contributions may be right in your situation. You may welcome the advice of a trusted financial professional as you assess this option in relation to your overall financial goals for retirement.

The chart shows some similarities and differences between a Roth 401 (k) and Traditional 401(k). WED

DAVID WENTZ is CEO of Tax Favored Benefits, Overland Park, Kan. Wentz is a graduate of the University of Kansas School of Law with a Juris Doctor degree. Wentz frequently speaks at various professional and business seminars about pensions, profit sharing, 401(k) plans, tax favored benefits, and investment programs. Western Equipment Dealers Association endorses Tax Favored Benefits as a 401(k) provider. No compensation is received. More information is available at www.taxfavoredbenefits.com.

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

57TH ANNUAL WESTERN FARM SHOW

American Royal Complex, 1701 American Royal Ct., Kansas City, MO 64102

February 23-25, 2018

Friday & Saturday 9 a.m. to 5 p.m. | Sunday 9 a.m. to 4 p.m.

Over 500 exhibitors, livestock demonstrations, the latest in farm and ranch technology, educational seminars, the Family Living Center, the Health and Safety Roundup – it's all under one roof. **This is the place to be! We'll see you at the show.**

Show Highlights

Low-Stress Livestock Handling Demonstrations | Saturday, February 24, 10:30 a.m. & 2:00 p.m.
— SPONSORED BY MFA, INC.

The Culinary Center of Kansas City Cooking School | Saturday, February 24, 11:00 a.m. & 1:00 p.m.
— SPONSORED BY AMERICAN FAMILY INSURANCE

Western Farm Show℠

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