Challenges & Opportunities of Expansion

Editor's Note: This article is the first in a series that will appear in *Farm Equipment* under the banner of "Planning for Profits." The goal of the new column is to provide solid, thought-provoking ideas to dealer-principals for their business planning. In each issue, the column will focus on specific topics and concerns that could be limiting the profit potential of your dealership.

Brand Structure — Large Farm Equipment Dealers North America

Number of Ag Stores	John Deere	AGCO Group	Case IH	New Holland	Kubota	Number of Owner Groups
>15	3	1	1	1		8
10-15	12	12	3	1		29
7-9	21	11	7	4	3	47
5-6	37	11	20	5	3	68
Total	**73**	**38**	**31**	**11**	**6**	**152**

The size of farm equipment dealer organizations has grown dramatically in the last decade. Today, 152 dealership groups with five or more stores operate an estimated 1,200 locations. This represents nearly 20% of the estimated 6,500-7,000 dealers operating in North America. The AGCO Group includes Challenger dealers. A listing of all-known dealers operating five or more locations can be found at www.farm-equipment.com and www.curriemanagement.com.

"*Who would be shark and who would be bait?* This question was the basis of a front-page *Wall Street Journal* article on August 14, 2007, "Why Deere is Weeding out Dealers Even as Farms Boom." A John Deere dealer posed it during a series of meetings in Louisville, Ky., in the summer of 2002. According to the article, "As the executives looked for inefficiencies, they also began to focus on dealers who were having trouble meeting profit and customer-loyalty targets. Deere's brass told dealers they should plan on a future in which they would either be a buyer or a seller."

Those 2002 meetings signaled the beginning of a strategy to "encourage" farm equipment dealers to consolidate. Theoretically, fewer dealerships would mean larger, multi-store organizations that cover bigger sales territories and more profitable retail outlets. To some degree, other full-line manufacturers are doing the same, in large part because of the increasing concentration and sophistication of large farmers.

But it's not just a matter of manufacturers initiating consolidation efforts. In many cases, dealers are taking matters into their own hands. When David Meyer and his partner, Peter Christianson, took Titan Machinery public in December 2007, they saw the aging of many dealer-principals and a lack of succession planning as major drivers of consolidation. Dealers ready to retire have initiated many of the firm's acquisitions, and today, Titan owns and operates 64 store locations.

Whether you like it or not, consolidation is continuing and sooner or later all dealerships will be confronted with the question, "Should we expand?" And with it, a process of due diligence of the challenges and opportunities must be initiated. Some of these are readily evident. Others are not quite so obvious.

Opportunities of Expansion

With a larger operation, dealers can increase their capability to serve customers, invest in facilities and training, and attract skilled managers and other staff that might not be feasible for smaller operations. Better absorption should also be possible in larger dealer operations. The cost of buying, and training for, specialized tools can be spread over higher volume, with higher utilization and a higher return on investment.

Increasing market share is another opportunity for dealers with additional locations or larger territories. With reduced in-line competition, dealers can and should focus on attracting customers of other brands. Because winners like doing business with winners, a larger dealer that is perceived to be more successful is better able to attract successful farmers, and do so with less price competition.

A larger dealer is more likely to be offered additional mainline products and additional territory by manufacturers looking for improved distribution. In any case, expansion must bring with it the opportunity to grow revenue significantly and to spread risk and fixed costs more broadly. If these two factors aren't obvious, more in-depth due diligence is needed before making the decision to acquire or merge with another store.

Challenges of Expansion

From our experience, the two biggest challenges of dealership expansion are that it stretches management capability and dealers must work to truly lower structural costs.

From our experience, the single, biggest challenge for most dealer-principals is their ability to adjust from managing a single-store operation to overseeing multiple-store locations. Managing remotely requires a more rigorous planning regimen as well as a more systematic, structured approach to operations. We've found that a top-notch, single manager can effectively oversee 4-6 locations.

Beyond this, a dealer group needs to develop a more capable (and better compensated) management team and then to leverage these more capable managers across their locations. For example, a parts manager may be asked to coordinate inventories and service levels for multiple locations. This can stretch the management and communication talents of even highly effective, single-store parts managers.

Adding locations can be a particularly huge step for "entrepreneurial" dealers that are used to seeing everything in one place. They often find it difficult to build a team that can succeed when they aren't in constant sight of the boss. In many cases, the dealer-principal must expand his management and leadership skills before he can succeed in expanding his operations.

Controlling expenses is a challenge for all dealers, and critical for expanding dealers. Based on our work with nearly 400 dealers in our Best Practices Group, we have found that the ability to control expenses is the single biggest factor that sets high-performing dealers apart from those achieving average results.

Dealers who expand must look at ways to reduce the costs of the combined operations. Examples include merging computer systems or hiring one highly capable service manager to oversee several stores instead of one for each location.

Expanding dealerships are sometimes reluctant to close store locations for fear of losing customers that may resist traveling longer distances for service. These situations often prevent needed cost reductions and thus, limited profitability.

Eyes Wide Open

When expanding through merger or acquisition, dealers need to go in with their eyes wide open, and shouldn't be surprised when a deal doesn't achieve the synergies that were initially projected.

The challenge is to drive the synergies through due diligence, "realistic" planning, effectively measuring results, and actively implementing all cost-saving measures, while at the same time anticipating that some things will not go as expected.

Expansion may not be the right strategy for you. Nonetheless, if you're considering it, knowing the opportunities and the challenges is imperative.

If acquiring or merging with a neighboring dealer is not for you, there are other ways to ensure long-term sustainability. We'll discuss these strategies, as well as how to increase the value of your dealership as a seller, in future columns.

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