WED
WESTERN EQUIPMENT DEALER
RESOURCES FOR SUCCESSFUL DEALERS

VOLUME 6, NO. 4
WINTER 2021

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We Need Your Support
Vote for Association Unification
JANUARY 2, 2022 through FEBRUARY 28, 2022
It's The Way Forward.

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Cover: Carrico Implement operates three dealerships in Kansas. This month's cover showcases its newest facility in Ellsworth, Kansas. Learn more about Carrico Implement in *Taking Care of Business*, which begins on page 8.

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WESTERN EQUIPMENT DEALER

RESOURCES FOR SUCCESSFUL DEALERS

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"THE WAY FORWARD"

Dealers voting on unification plan of associations

By WEDA Staff

WEDA CEO John Schmeiser explains the benefits of association unification.

During a recent meeting of dealers in St. Louis, Missouri, John Schmeiser outlined what he called "the way forward," a unification plan of dealer associations that originally surfaced in 2018.

While much of the world has been sealed off by nearly two years of COVID-19 setbacks, Schmeiser said virtual discussions about unification continued and a plan was developed. With the easing of pandemic restrictions, Schmeiser took to the road to meet with members of the Western Equipment Dealers Association and St. Louis was the first stop.

As CEO of WEDA, Schmeiser explained to dealers that five associations were originally involved in discussing unification. That number is now four and includes WEDA, the United Equipment Dealers Association, the Midwest-SouthEastern Equipment Dealers Association, and the Equipment Dealers Association, formerly known as NAEDA (North American Equipment Dealers Association).

Depending on the outcome of the voting, which ends February 28, EDA and other associations could become NAEDA once again. But this unification is not about a name change, although that was the first recommendation from dealers of the unification group. This unification is about doing what's in the best interest of dealers and the industry, noted Tom Rosztoczy, Stotz Equipment and former chairman of the EDA board.

"Look at our changing dealer network, the changing demands and needs of dealers, make sense of the future and gear the organization towards it."

While that quote would appear to be about a single organization, it's a much, much broader thought that resulted in conversations to unify the four associations at the table, which operate under similar missions and structures and, in many cases, offer duplicate programs.

When Schmeiser became an executive with the former Canada West Equipment Dealers Association in 1996, there were nearly 30 dealer associations in the U.S. and Canada and, at one time, there were close to 60 with some states having more than one association.

Although the number of associations has been reduced through other mergers, equipment industry consolidation has been occurring for years and it's changed the landscape for dealers and their customers. As Schmeiser pointed out during the meeting, one of the major topics during unification meetings was whether associations were keeping pace with industry changes.

The group of association executives and their boards thought improvements were needed and 43 recommendations were made to address restructuring. This included developing a long-range strategic plan for growth, governance, operations, transition, and staff in two association offices, Kansas City, Missouri, and Calgary, Alberta.

The financial savings alone are substantial under association unification.

While streamlining operations to save money is a noteworthy outcome, the primary benefit of unification would be meeting the business and operational needs of the agricultural, construction and outdoor power equipment dealers that would become the members of NAEDA.

As shown here, the national association will continue to concentrate on key priority areas, priorities that have been at the center of dealer associations for decades.

WEDA now

In addition to serving dealers throughout Canada, WEDA (the teal blue states) currently serves members in nine states as shown on Map 1.

Map 2 shows the post-merger service area that will operate as NAEDA.

"Once unification is in place, this would give the national association, NAEDA, a stronger presence, a stronger footprint, and more programs and services for dealers in the unified states and Canadian provinces," said Schmeiser.

Under unification, NAEDA would cover 24 states, nine Canadian provinces and have a membership of approximately 3,000.

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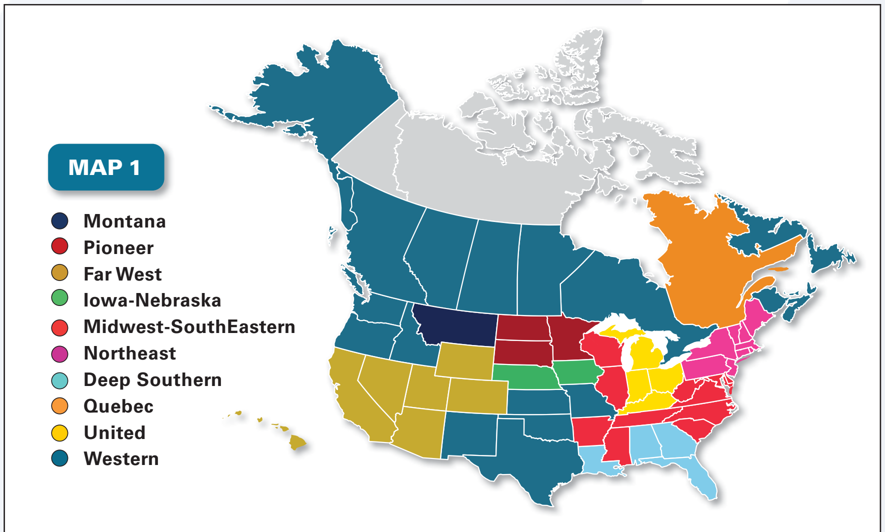

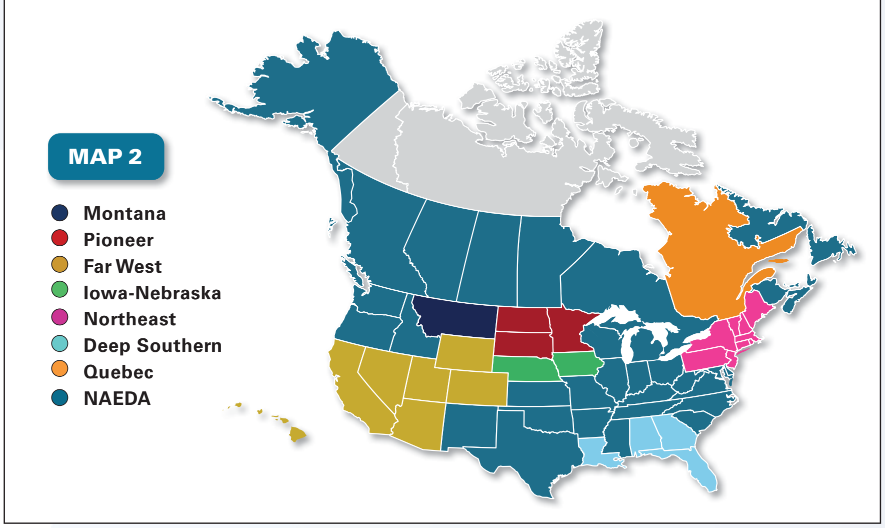

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"THE WAY FORWARD"

Tom Nobbe, a John Deere dealer from Waterloo, Illinois, strongly supports unification. As a former president of the old NAEDA, Nobbe knows a thing or two about mergers. He was a member of the former Mississippi Valley Equipment Association, which merged with WEDA 10 years ago. Plus, his dealership, Wm. Nobbe & Co., merged with Sydenstricker Implement, Mexico, Missouri, three years ago to form Sydenstricker-Nobbe Partners.

Tom Nobbe, Sydenstricker-Nobbe Partners (foreground), and Dale Crouthers, Medlin Equipment Co., listen to the association unification plan.

Nobbe strongly supports unification of the association. When Nobbe became chairman of the board of the old NAEDA in 2013, he spoke with a lot of dealers and association boards about the priorities of dealer associations. He said what he heard loud and clear was a need for strong legislative representation at the national level and manufacturer relations.

"Both of those require one strong voice," said Nobbe, "and this unification will give us that one voice and it will be stronger. For that reason alone, I think this is a really good move."

Added Schmeiser, "We have dealers throughout North America consolidating and it's a trend that isn't likely to slow down in the future. You could make the argument that dealer associations haven't kept pace with dealer consolidation, and the risk that comes with that is that large dealerships may not view the association as relevant."

Schmeiser also pointed out that dealers – *the leaders* – who represented the associations in 2018 opened the door and were the driving forces behind this unification effort. He said they all agreed that in the best interest of dealers a stronger national association was needed.

"This resulted in a series of meetings where we asked ourselves, 'What do we need to do, how do we do this and how do we structure this?' Once we had a plan, it was presented to the boards of the regional associations that wanted to participate and the members of those associations, including WEDA members, are voting on the same plan."

What the future looks like

While each merging association will surrender its name, the new national association will have a stronger structure to serve the interests of its membership.

"Each of the three other regional associations has already gone through a merger," said Schmeiser, "and although consolidation represents change, the key is to continue to provide the same focused services to dealers."

When asked whether there was a strategy for outdoor power equipment dealers, Schmeiser quickly said, "Yes. Services for OPE dealers will be enhanced as additional resources will be dedicated to this sector.

Members Scott Hortiz, Dale Hughes and Kevin Hughes, Lawn Care Equipment Co., learn about OPE expansion plans during the meeting.

> **Look at our changing dealer network, the changing demands and needs of dealers, make sense of the future and gear the organization towards it."**
>
> Tom Rosztoczy, Stotz Equipment and former chairman of the EDA board

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NAEDA sees incredible growth opportunities for OPE members and resources will be put in place to grow OPE membership."

Schmeiser was also asked if the national association would work with the regional associations that are not participating in this unification process.

"Absolutely," said Schmeiser. "NAEDA wants the current working relationship with regional associations to continue. As an industry, we are stronger by working together.

"Regional associations that pay dues on behalf of their dealer members would continue to receive the federal level legislative services and manufacturer relations support offered by NAEDA. There will also be an opportunity for a regional association to elect a board member to the NAEDA board."

Similar to the St. Louis meeting, WEDA conducted 15 other area meetings, plus three webinars, for dealers in its three regions. The purpose was to expose as many dealers as possible to the unification plan. An information packet and ballots were distributed prior to the vote.

"We were excited to share the details of this unification project with our dealer members," said Schmeiser. "We received an incredible amount of support from the members and they quickly saw how the plan benefits their dealerships."

In closing, Schmeiser said upon approval of the unification plan, the transition would begin and the new organization would be operational by July 1, 2022.

"It's the way forward." WED

The Unified Associations at a glance

The merged association will have a tremendous amount of experience in association leadership and a strong lineup of service providers.

NAEDA Leadership
- Kim Rominger – CEO
- John Schmeiser – COO
- Gary Manke – V.P. Manufacturer Relations
- Curt Kleoppel – CFO
- Eric Wareham – V.P. Government Affairs
- Jennifer Luce – V.P. Member Engagement
- Michael Piercy – V.P. Dealer Development
- Larry Hertz – V.P. NAEDA Canada

Association Headquarters and Staff
- Kansas City, Missouri (U.S. headquarters)
  23 staff
- Calgary Office (Canadian Headquarters)
  4 staff
- Remote staff in Missouri, Montana, Illinois, Michigan, Tennessee, and Florida
- Contract Employees (SME – subject matter experts, e.g., Dealer Institute and other trainers) and magazine staff
  9 total
- Growth Plan
  Add locally based regional managers to service/assist dealers in NAEDA's 9 U.S. and Canada regions

Key Business Units
- Equipment Dealer Consulting LLC
  Certified audits, reviews, valuations, merger and acquisition services
- Dealer Institute
  online training, on-site consulting, virtual and classroom training
- Friend Management Systems
  dealer performance groups
- Association Management
  North American Vermeer Dealers Association, John Deere Users Group, 11 other associations
- Western Farm Show

Member Benefits
- Unified Voice on National Issues
  Government Affairs
  Manufacturer Relations
- Effective Regional Representation on Local Issues
- Financially Sound Association
- Diverse Revenue Streams
- Broader Programs and Services, i.e., accounting, valuations, mergers and acquisitions
- Strategy to Build on Workforce Development Challenges

Operational Member Benefits
- Management Team Depth
- Plan for Membership Retention through Transition and Beyond
- Proactive Member Engagement
- Proactive Government Affairs Approach
- Industry Relations Expertise (dedicated Industry Relations Taskforce – IRTF)
- Data and Information
- International Presence
- Regional Approach

Member Dues
- One member fee of $600 per U.S. location (farm, construction, industrial and forestry members)
- $400 per location for U.S. OPE dealers

WESTERN
Equipment Dealers Association

Carrico Implement

Technology focused

By LYNN GROOMS

This is what Carrico's customers see when they walk into the dealership's showroom at the Ellsworth location. This is well-lighted space with new equipment, parts and equipment accessories.

From the equipment it sells and services to in-house technology training and systems, Carrico Implement is technology focused. The fourth-generation family-owned dealership serves customers in a 14-county area of northern and central Kansas.

Carrico Implement sells and services a full line of John Deere agricultural equipment. In addition to John Deere construction equipment, the dealership offers several shortlines to serve a wide range of customer needs.

Brad Ellenz, director of operations at Carrico Implement, says one of the most significant advances in technology was when John Deere introduced JDLink telematics to agricultural machinery. There has been an evolution in telematics over the last two decades.

"And steady advances in cellular technology have created a number of different ways to use telematics," Ellenz said. "It started with being able to see a machine's location, remotely view codes, and push software to a machine. Then we were able to remotely view the customer's in-cab displays and wirelessly send data to and from the machine. Now all of that information transmits at a much faster pace."

The technology enables Carrico Implement to provide proactive customer support. Ellenz provided an example.

"One of our customers had a combine that showed steadily dropping engine oil pressure, but it wasn't drastic enough to set the oil-pressure code," he explained. "Our connected tools caught the steady decline in pressure and alerted us there might be an issue. The customer was just completing fall harvest, so we had him bring in the machine for an inspection. That's when we found an internal component that was just beginning to fail. We were able to repair the issue out of season. We also potentially avoided a major failure that may have occurred the following harvest had we not caught it early."

Advances in internet technology also have enabled the dealership to offer an additional customer service feature on its website. The Carrico Customer Portal enables customers to order parts or services from any one of its three stores. The portal also keeps track of the customer's online order history.

Internal use of technology

To keep pace with new technologies introduced by John Deere and the shortline manufacturers that Carrico Implement represents, the Kansas dealership added a virtual conference system. The system enables managers and sales teams from the dealership's three stores to meet virtually. Carrico Implement added the system before the COVID-19 pandemic. It has become increasingly valuable during pandemic lockdowns, Ellenz said.

The dealership also provides its team virtual and in-person training.

"With technology being so integrated into equipment now and new technology coming at a faster pace, we've focused on mainstreaming product knowledge throughout our entire organization," he said.

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

That helps the Carrico team better understand how to support products. The dealership's precision-agriculture team provides training on and demonstrations of new technology products.

In addition to in-house training and technical training offered by John Deere, Carrico Implement provides employees training in soft skills. For example, it has used some of the training programs offered by the Western Equipment Dealers Association's Dealer Institute.

Keeping the legacy in motion

Key to Carrico Implement's success are its employees, Ellenz said. And when the dealership has job openings, it likes to promote from within, he said.

"We have a number of employees with more than 30 years of service, and one recently retired after 45 years with the company," he said. "That's a testament to the generations before us. Our goal is to carry that legacy for generations to come."

Ellenz represents the fourth-generation of his family to own and operate Carrico Implement. He said the dealership encourages open communication between employees and their supervisors and the leadership team.

The company also has instituted a performance-based pay model. Employees receive incentives on top of their base pay. That has helped drive positive results and employee retention, he said. Carrico Implement also offers employees healthcare plans and a 401(k) matching program.

Brad Ellenz, director of operations at Carrico, visits with Luke Hedberg, manager of corporate parts inventory.

Listening to your employees

Employee feedback also has contributed to the company's success, Ellenz said. "Many of our processes to improve customer experience have been implemented from employees who see opportunities for improvement," he said.

Feedback from technicians, for example, recently helped to improve the work environment. Carrico Implement recently installed a new air-conditioning system at its Beloit, Kansas, shop so that technicians could be comfortable year-round.

"With resounding positive feedback from our technicians, we went ahead and started the process to have the systems installed at our other two locations," he said.

With employees nearing retirement, the dealership also must look to the next generation. Representatives from the dealership frequently visit high schools to speak with students, especially those belonging to FFA. They also offer free-ride scholarships to the John Deere Ag Tech program, which includes tuition, books, fees, room and board, and tools. WED

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

Carrico Implement, Ellsworth, Kansas

Carrico IMPLEMENT

Carrico Implement

Established: 1955

Locations: Beloit, Ellsworth and Hays, Kansas

Owners: Dan Ellenz, Karen Pestinger and Craig Ellenz – third generation – and Garrett Ellenz and Brad Ellenz – fourth generation

Employees: About 100 employees at the three locations

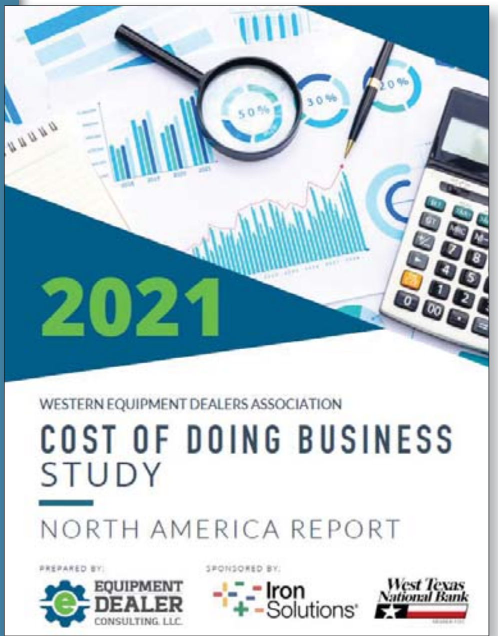
Major lines: John Deere, T-L Irrigation, Landoll, Sunflower, J&M, Great Plains, Hutchinson/Mayrath, Haybuster, and Shelbourne

Customer Base: production agriculture, livestock producers, custom harvesters, construction/landscaping, property owners

Website: www.carricoimplement.com

Keys to Success:

- Innovation – Understanding customers' needs and finding solutions that create value for our customers, no matter the resource.
- Exceptional customer support – Parts inventory, technical expertise, remote support.
- Employee feedback – Many of our processes to improve customer experience have been implemented from employees that see opportunities for improvement.



WEDA Cost of Doing Business Study

What dealers told us

By CURT KLEOPPEL

We want to stress the importance of participation in the annual *Cost of Doing Business Study*. The study was used back in 2017 to support the floor plan interest deduction for the farm equipment industry. If it was not for the supporting information provided from the study, this deduction would have been left out of the legislation.

The study also supports the WED Foundation for values of merging companies or dealers looking to sell their business. Moreover, the study is used for estate/gift tax planning and providing a fair value of dealerships transferring interests to family members and trusts.

The study represents all brands and dealerships in Canada and the U.S. The study is free to members who participate. Please note, volume categories will change for next year's study, so plan on participating. Here are some highlights and low spots from the 2021 study, which contains 2020 financials.

Balance Sheet

Comparing changes for dealerships in different volume groups, **total inventory** in dollars decreased over the 2020 results for all volume dealers, especially the largest volume dealerships whose inventory decreased close to $15 million. The middle volume dealerships saw inventory decrease by $5 million and inventory at lower volume dealerships decreased by $200,000. This is a substantial change from a year ago.

This was expected with almost a full year of COVID-19, people not working in factories, shipping being delayed, and government-mandated closures for a couple of months in most major cities. We saw a $10 million decrease in new inventory, and used equipment decreased by over $3 million for higher volume dealership. The actual percentage of inventory to total assets decreased for the lower and higher volume dealerships. The middle volume dealerships had an increase in inventory of 1.5%.

Parts inventory stayed about the same for all volume dealerships, both in dollars and as a percentage of total assets. The decrease of inventory to total assets increased the inventory turns for all three levels of dealerships. Inventory turns were 2.14 for lower volume dealerships, 2.19 times for middle volume dealerships and 3.20 times for the larger volume dealerships. This is a great improvement from 2019. So far in 2021, all inventory levels are expected to remain low. For used equipment it will stay extremely low throughout North America.

Receivables increased for the higher volume dealerships from a year ago. The change from the middle volume dealerships was a 2.71% decrease, while the lower volume dealerships decreased by .58%. The majority of the increase for the high-volume dealerships was in customer receivables and Contracts in Transits, so hopefully those will be collected in the following year. Contracts in Transit are usually very collectible since they are approved by a finance company before a deal is finalized.

There was an increase in **fixed assets** as a percentage of total assets across the board. The higher volume dealerships had a 2% increase from a year ago, middle volume dealerships increased by 3.59% and the smaller volume dealerships increased by 3.62%. This shows that all volume categories of dealerships were spending more money on service trucks, tools, etc. to offset the increase in net income from a year ago among lower volume and higher volume dealerships. The middle volume dealerships reported a slight decrease in net income.

Corresponding to the inventory levels, so went a **dealership's payables**. We saw a decrease in the overall payables for lower, middle and upper volume dealerships to coincide with inventory fluctuations.

We did see an increase in **equity percentage** in the lower and upper volume dealerships, which reflected a rebound from last year. The middle volume dealerships decreased to 16.28% after rising to 24.47% a year ago. The decrease is due to $200,000 less in net income and an increase in Treasury Stock, which reduces equity. From what we learned, some middle volume dealerships bought out shareholders during the year. The higher volume dealerships increased to 38.03% from 30.90%, which is a substantial change. Lower volume dealerships increased to 36.45% from 31.35%, which is also a good increase. Most of the increases are from the boost in net income for both volume groups, which was $2.6 million for higher volume dealerships and $300,000 for lower volume dealerships.

Income Statement

Total sales volume increased for lower volume dealerships by almost $2 million and increased by $5 million for higher volume dealerships. Total sales for middle volume dealerships decreased by $5.4 million, which helps explain

Continued on page 12

CURT KLEOPPEL is treasurer of WEDA, and president of Equipment Dealer Consulting, LLC.

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WEDA Cost of Doing Business Study

Continued from page 10

... the equipment industry held its own in 2020 and held its own deep into 2021.

the decrease in net income for this group. The increase in sales volume for both the lower and higher volume dealerships explains the increases in net income and the equity percentage. The increase in sales volume helps explain the decrease in inventory levels, plus dealerships could not order inventory from their manufacturers and receive it in the normal time frame, more examples of issues related to COVID-19, shipping problems and lack of workforce.

Where you see sales volume increases, you then need to look at the **gross margin percentage**. In most instances, increased sales volume does not always equate to greater gross margin percentages. In this case, the higher volume dealerships gained .69% margin and the middle volume dealerships decreased 1.60% margin. Both of these instances reflect the increase in net income for the higher volume dealerships and the decrease in net income by middle volume dealerships. While lower volume dealerships show a margin decrease of 1.39%, even with an increase in sales volume, this group still showed an increase in net income, which was caused by another factor noted below. So, overall, this was a decent outcome.

Dealers did an excellent job in controlling **overall operating expenses**. The lower volume dealerships decreased operating expenses by 2.17%, which is mainly from increased sales volume. The actual dollar amount increased by $97,000, so, with the increase in sales volume, the bottom line actually improved from a year ago. The middle volume dealerships decreased by .047% and the higher volume dealerships decreased by .89%. Most of the decrease in operating expense percentages for middle volume dealerships was in salary/benefits area and interest expense. The decrease for the high-volume dealerships was in interest expense, occupancy and total other expenses.

Service quality expenses as a percentage of sales decreased some for the middle and higher volume dealerships. This is good to see, especially in lost warranty expense, comeback and After Cost of Sales expenses. Both the middle and higher volume dealerships saw a decrease of .04% and .06%, respectively. The percentage for lower volume dealerships stayed the same at .35%, but the actual dollar amount increased around $5,000. This was due from the increase in sales volume.

Occupancy expenses for all three dealership categories did not fluctuate greatly from the prior year.

Net income as a percentage of sales increased over last year for the lower and higher volume dealerships. The increase was 2.52% increase for the former and 1.38% for the latter. The increases were needed by both groups and represent a great increase from last year. The middle volume dealerships saw a decrease of .28% for a 3.09% overall net income before tax of sales.

Ratios

Inventory turns increased greatly from a year ago. Turns for lower volume dealerships increased by .79 times, the middle volume dealerships increased by .34 times, and the higher volume dealerships increased by .54 times. This is yet another indicator of why inventory levels decreased.

The last comment would be **Return on Equity**. The lower volume dealerships increased from 7.82% to 24.17%, the middle volume dealerships increased from 28.50% to 40.03%, and the higher volume dealerships increased from 18.45% to 26.79%. All of these were expected, since the changes we mentioned before affect the ROE.

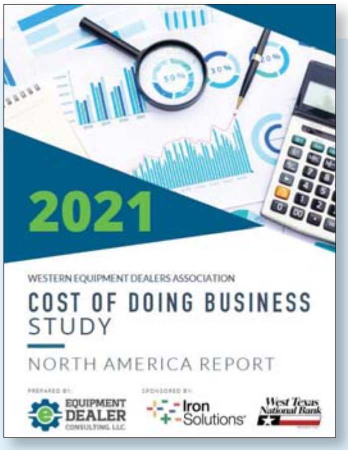
The **Return on Assets** showed similar changes. The lower volume dealerships increased from 2.51% to 8.42%, the middle volume dealerships increased from 6.20% to 6.52%, and the higher volume dealerships increased from 6.19% to 10.19%.

I would say the most improved group was lower volume dealerships, which was needed after the 2019 results. The higher volume dealers also added to the bottom line, ROE, ROA, and increased margin percentages. The middle volume dealerships are holding their own and we will see what year-end results for 2021 look like compared to 2020 year-end results.

We have been dealing with another year of the pandemic in 2021 and shortages of inventory and shipping problems continue.

It will be interesting to watch, but the equipment industry held its own in 2020 and held its own deep into 2021. The challenge in 2022 will be rising inflation (if it continues), inventory shortages, supply chain issues, and shortages in the workforce. WED

CURT KLEOPPEL, CPA, CVA, is treasurer of the Western Equipment Dealers Association. He also serves as president of Equipment Dealer Consulting, LLC, a long-term association partner. The consulting group was created to provide financial services to association members. For information, visit www.eqdealerconsulting.com or write to curt@westerneda.com.



For a copy of the *2021 WEDA Cost of Doing Business Study:*

- Call the WEDA office in Kansas City, Missouri, at (800) 762-5616
- Call the WEDA office in Calgary, Alberta, at (800) 661-2452
- Email info@westerneda.com

The study is free to dealers who participated in the study.

Additional information is available at www.westerneda.com/cost-of-doing-business-study.

EQUIPMENT DEALER CONSULTING, LLC.

THE EXPERTISE YOU NEED FOR YOUR INDUSTRY

About Us

Equipment Dealer Consulting, LLC accountants have more than 60+ years of combined experience working with farm equipment, construction, industrial, outdoor power equipment, hardware and home center, and building materials industries. This industry knowledge and experience enables the team to provide the best possible service and consultation in a more efficient and effective way.

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Financing Solutions for the Farmer-Dealer

How one customer utilizes AgDirect® for his equipment needs and shortline equipment sales.

Like many farmers, Gayle Stuart wears many hats. In addition to managing the day-to-day decisions on his corn, soybean and cattle operation, Stuart runs a shortline equipment business and a small trucking company from his farm near Vandalia, Missouri.

It was through Stuart's role as a shortline equipment dealer that he first connected with AgDirect equipment financing at a nearby farm show.

"The first time I was introduced to AgDirect and started working with them, it was really surprising how quickly they were able to respond with a credit decision," he says. "With other lenders, you never knew how long it was going to take."

"The main reason I chose to work with AgDirect was on account of the simplicity of their financing and application," Stuart adds. "They're also very competitive with their interest rates."

> **AgDirect understands agriculture and what a farmer needs.**
>
> **– Gayle Stuart,**
> Grain and Beef Producer,
> Shortline Equipment Dealer

An equipment lender that understands agriculture.

Friendly service and an unmatched focus on ag equipment financing are what keep Stuart working with AgDirect today.

"AgDirect understands agriculture and what a farmer needs. They are more receptive to your ideas of what you want to finance," he explains.

"About a year ago, we purchased a combine. The dealer wanted us to go through their financing, but we put the figures together and AgDirect was a lot more attractive than the dealership financing."

Another example of how AgDirect helps producers like Stuart gain a competitive edge includes the loan, lease and refinancing options they offer for both new and used equipment.

"New equipment is nice, but I have a hard time handling some of the newer technology," says Stuart. "All of the equipment we have purchased lately has been used, and we've been able to finance it through AgDirect. The down payment required is very reasonable, and it doesn't seem to make much difference what year the used equipment is."

For Stuart, deciding when to replace machinery depends largely on repair costs and how well his current equipment is meeting his needs. He says he appreciates the tools and resources AgDirect provides to help him justify purchases.

"AgDirect has up-to-date interest rate information and a payment calculator that I have used to figure out what my payments would be per

AgDirect is an equipment financing program offered by Farm Credit Services of America and other participating Farm Credit System Institutions with lease financing provided by Farm Credit Leasing Services Corporation.

> **AgDirect has up-to-date interest rate information and a payment calculator that I have used to figure out what my payments would be per year.**

year," he shares. "It really helps you make a decision on whether you want to buy a piece of equipment or not."

The same is true when Stuart is working with customers on sales through his shortline equipment business.

"I would definitely recommend AgDirect to a friend or neighbor and, in fact, I do recommend it to our customers if they are in need of financing," he says. "I tell them AgDirect financing is part of the Farm Credit system. I also tell them approximately what the interest rate will be and how much they can expect to pay down, and that usually makes the sale about 80% of the time."

AgDirect is dedicated to helping you and your customers find the right financing solutions, and offers competitive rates and terms for both new and used equipment purchases. Check rates, quote payments and compare options with our free AgDirect Mobile application, or learn more about AgDirect equipment financing by locating your nearest AgDirect territory manager or contacting the AgDirect financing team at 888-525-9805.

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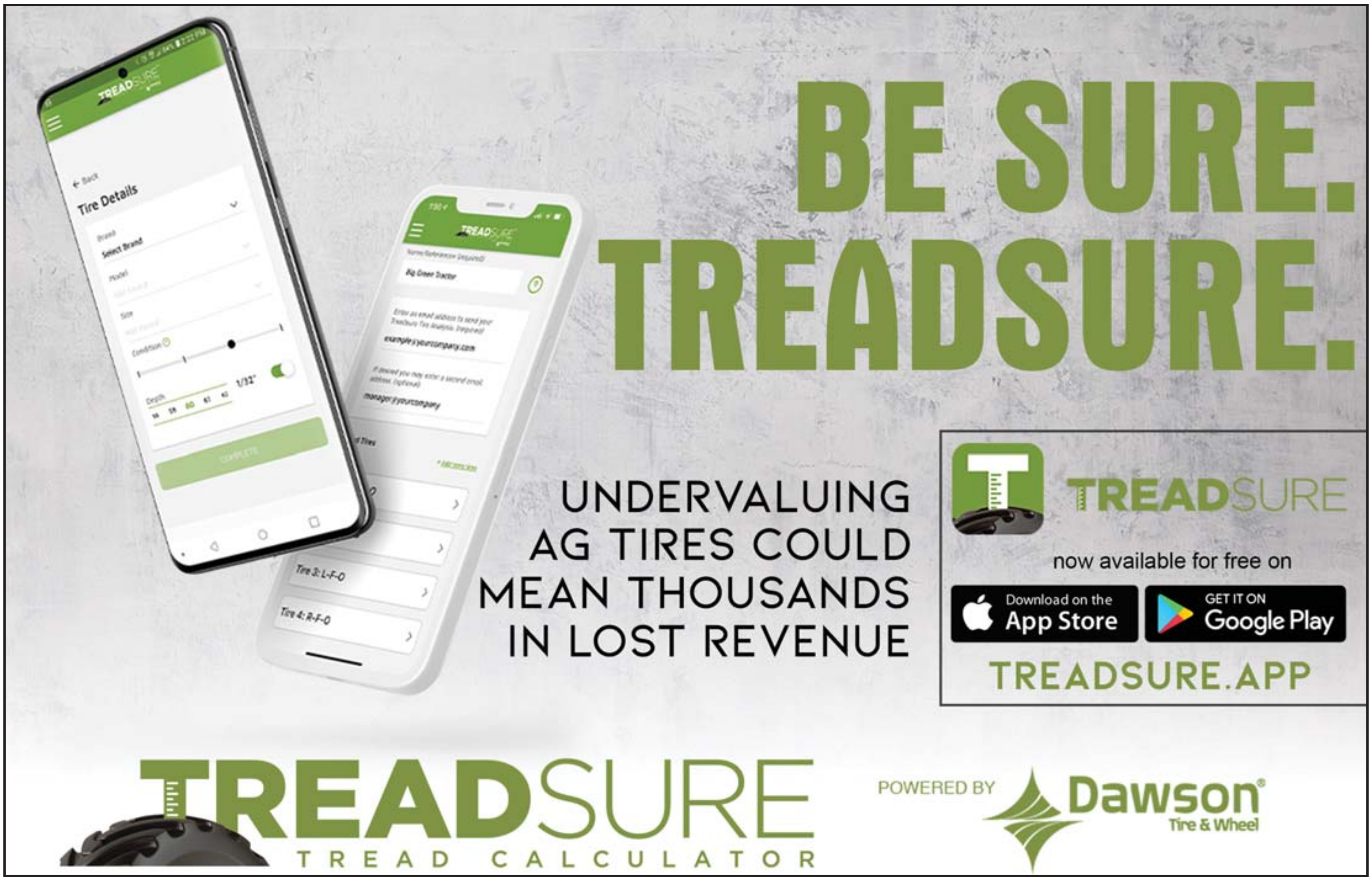
AgDirect is an equipment financing program offered by Farm Credit Services of America and other participating Farm Credit System Institutions with lease financing provided by Farm Credit Leasing Services Corporation.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Forecasting Large Tractor values

Where we were... where we are

By DAVID DAVIDSON

WE ARE IN A TIME OF MASSIVE changes with shortage of new and late model used equipment.

So, pricing used equipment and forecasting value is more important than ever before. We often read and hear about depreciation of used equipment, but this is an unusual time when we are able to take a closer look into something we rarely see... used tractor *appreciation*.

The chart in Figure 1 shows the average age of used tractors sold and an index value. The left axis shows the average cumulative percentage change in value. The right axis shows the average age in months of the equipment sold. The comparison of the two lines gives visibility as to whether actual prices are changing in the market or if prices only reflect a change in the characteristics of the machines sold.

For example, in a typical market, if the average age is lower, you would expect the change in value to go up. Conversely, if the age of the machine increases, its selling price would go down. That would be in a "typical market" scenario. But, can you remember when we last had a "typical market?" Today's market is certainly not typical.

The last data point in the chart represents July 2021 where a high rate of increase in the index occurs while the average age remains steady at 34 months. Also, July marks the steepest increase from month to month since October 2018. July's figure is part of a 10-month trend since September 2020 with a net increase of 11 percentage points.

The last time we saw a steep increase in the index value like this was 2011 thru 2013 when corn prices went up from $3.50 per bushel to above $5.50 until the Summer of 2013. Corn then stayed in the $3 to $4 range until 2021, when corn again went above $5.00. The price has remained there through the time of this writing ($5.18 on September 12, 2021). All this suggests that the corn price influences the demand for equipment and drives equipment prices higher.

August Used Equipment Trends: Tractors > 100HP

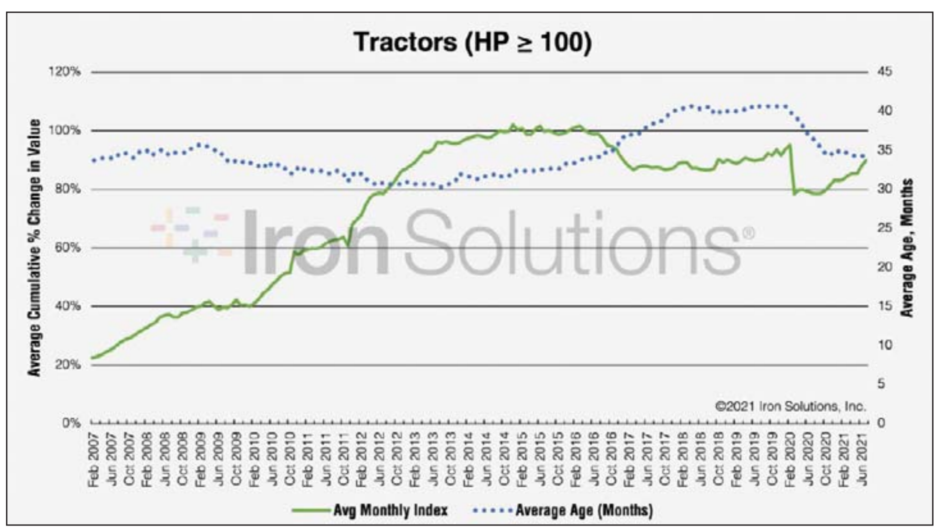

Figure 1

Scarcity of equipment

Unlike 2011 through 2013, however, there is a scarcity of equipment in play. Recently, we've heard reports of empty lots at equipment dealerships. To get more insight, we can look at the duration of time that used tractors stayed on dealer lots.

Continued on page 20

Forecasting Large Tractor values

Continued from page 18

During the time following the high-priced corn of 2012 and 2013, there was a glut of used equipment. Many dealers had difficulty moving used inventory for the next four years. This is shown especially by the grey line in **Figure 2** where some dealers were holding used tractor inventory for nearly a year. Since that peak in 2019, however, the average days used tractors stay on the lot has declined with some dealers holding inventory less than 50 days on average.

Used Inventory - Tractors - Average Days on Lot

Figure 2

Let's get specific

Let's look into a set of six specific models, focusing on four-year-old high HP tractors equipped with quad tracks from John Deere and Case IH.

Figure 3 shows the depreciation of each of these six 2017 models, by quarter, from 2017 through the fall of 2021. Not surprisingly, the specific models here bear out the same uptick in values that we saw in the index value from Figure 1. It is unusual to see two consecutive quarters of appreciation especially at the rate we saw most recently, summer to fall of 2021.

The average value of these six models gained nearly 5% since spring of 2021 and just short of 7% for the John Deere 9520RX specifically.

2017 Model Year Large Quad Track Tractor Depreciation

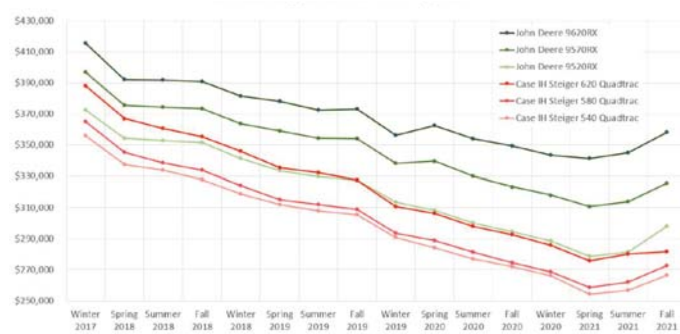

Figure 3

What might the future hold?

Using a tool called IronForecast℠ we can adjust some variables in a predictive model and look at some scenarios into the fall of 2022. Among other variables, IronForecast allows us to adjust for future predictions in price volatility, used supply, and commodity prices.

In **Figure 4**, the solid green line represents the actual used value of a typically-equipped 2017 John Deere 9570RX through the fall of 2021. The three dotted lines represent three scenarios of what might happen to this model's value in the next 12 months. The dotted line in the middle represents a base case, most representative of a typical market. The lower dotted line represents a scenario where used supply corrects to slightly above normal levels and corn goes back down to $3.00 per bushel. This scenario would produce an accelerated depreciation.

On the other hand, if the used inventory supply remains constrained (by a factor of 70% of normal) and corn moves to $4.50, it is possible to imagine that this 5 year-old tractor regains all the value it lost since 2019. This scenario is represented by the high dotted green line.

2017 John Deere 9570RX Actual and Forecast Depreciation

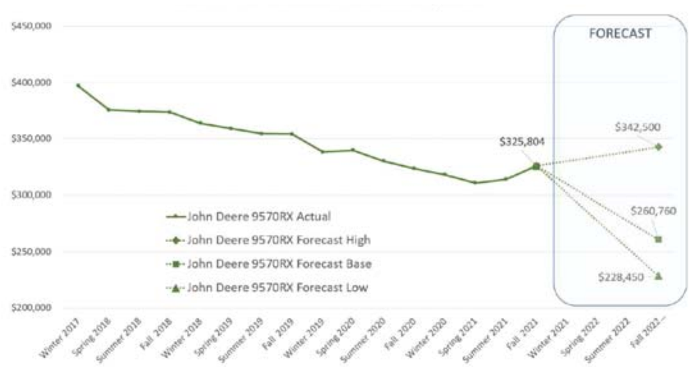

Figure 4

So, what does this mean for buyers of high HP tractors?

While limited supply and high demand are pushing used prices up, it may be a time to consider buying new. If this trend continues, look for dealer and manufacturer incentives on new models to take advantage of this scenario. If you find a used model that you are interested in, you may want to act fast and be prepared to pay more than what you would expect in a "typical market." Dealers, auctioneers and sellers in general are aware of the shortage and will adjust pricing accordingly. WED

To review current inventory and advertised prices of model year 2017 high horsepower tracked tractors, visit www.ironsearch.com.

DAVID DAVIDSON is the marketing director at Iron Solutions. With 20 years of experience in CRM and 10 years in the ag equipment space, Davidson brings a unique perspective to data trends in used equipment sales and utilization of CRM's that serve ag equipment dealers.

EDITOR'S NOTE: The impact of options on value is removed from this analysis by normalizing the units sold to their base value. This allows for an 'apples to apples' comparison of the products within a given category or model. Data in this analysis comes from Iron Solutions® and its products, IronGuides®, IronAppraiser®, and IronForecast®.

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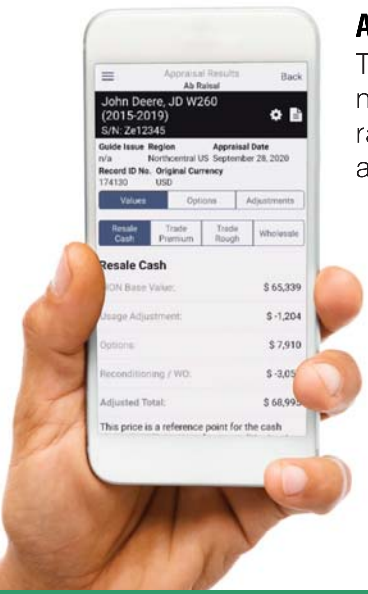

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When do you let someone go?

By DR. LARRY COLE

THE SHORT ANSWER – when they become a pain in the butt.

An employee's decision to continue to underperform technical responsibilities, display incompetent interpersonal skills, or both, creates the pain in the butt syndrome. Something needs to change.

Technical

The number one reason cited for underperformance is an employee not understanding what is expected. This is the supervisor's fault and can be easily fixed. It is critical to spell out the performance objectives to be crystal clear and the employee can paraphrase to exhibit complete understanding.

Suppose an employee understands what is expected but doesn't have the technical skills to meet the expectations. Again, this is a relatively easy fix by providing a training opportunity such as shadowing a more skilled colleague.

The lack of motivation to meet defined expectations is more difficult. It is possible to reverse the level of motivation, but doing so requires considerable effort from the supervisor. The psychological bottom line is for an employee to understand the ratio of disadvantages over advantages, i.e., D > A, for remaining an underperformer. Doing so helps the employee understand that electing to remain as is, is not the best option. This can jump start an underperforming employee.

Combine this dynamic with the ratio of advantages over disadvantages, i.e., A > D, to meet performance objectives to turn up the motivational thermostat. An important prerequisite is when an employee acquires this awareness as opposed to being told. Dictating to an employee is not going to get you where you want to go.

For our discussion, let's assume the worst-case scenario with an employee who continues to underperform. Now is the time for a serious conversation. Ask the employee, *"Do you want me to trust you?"* Should the employee say, *"No or I don't really care"* makes the decision easy for a supervisor to say, *"I need people working with me whom I can trust.* Here's the supervisor's punch line: *"It's okay if you don't want me to trust you, but that isn't okay here, and I'll accept your resignation."*

The same conclusion could be reached if the employee says, *"Yes, I want you to trust me."* This could lead the supervisor to reply, *"Great, and I want to trust you. You can show me you're trustworthy by meeting the agreed upon performance standards."*

Should the performance not improve, you may proceed with the final statement in the preceding paragraph.

That's one down and one to go.

Interpersonal

This is the more challenging category because these behaviors are more abstract. The most frequently cited complaint centers on an employee with a negative attitude. What constitutes a negative attitude? Is it someone who consistently trashes the dealership or other employees? Is it someone who is consistently complaining? Is it someone who is egotistical and acts as if they walk on water? Is it someone who does not support other team members or departments? You get the picture. A typical explanation for keeping this type of employee is we need a body or we need the person's technical skills.

That brings us to a rotting apple that spreads poison throughout a barrel, and the healthy apples soon begin to rot. A supervisor must realize that accepting non-acceptable behaviors lowers the performance standard for other employees. A supervisor's mortal sin!

The challenge when working with a bad attitude is defining the expected behavior in positive, empirical terms. Telling an employee to *"stop being negative"* isn't going to succeed. A coin has two sides. So, when an employee consistently trashes other people or the dealership, the desired behavior is the opposite: support other employees or the dealership by talking about how good other employees perform or how proud you are to work in the dealership.

Again, the specificity to define the expected behavior is critical.

Focus

Focus throughout the day is another important element in the change formula. A supervisor may need to help maintain that focus by repeatedly asking an employee if they are having a good day. And remember showing the employee appreciation for a "good day" is necessary to support the behavioral change.

Self-monitoring

Self-monitoring has been demonstrated to be a tool to facilitate the change process. In other words, ask employees if they had a good or bad day as they exit the dealership at the end of the day and place a mark on the calendar representing the day's performance.

Work

Helping employees change requires a lot of time and work. The dealership must decide if the return on its time and effort investment will yield the expected returns. In closing, let me remind you of two realities. One, the dealership is a university to teach employees technical and interpersonal skills for success. Two, removing bad apples will have a positive influence on your dealership. WED

LARRY COLE, Ph.D., is a lead trainer for and consultant to the Western Equipment Dealers Association's Dealer Institute. He provides on-site training and public courses to improve business leadership effectiveness and internal and external customer service. Please send questions and/or comments to Larry at teammax100@gmail.com.

WRITER'S NOTE: In my next article, I'll look at how cults handle leadership.

DR. LARRY COLE

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


Northern
Ireland

Inclement weather awareness while on the job

By JERRY LEEMKUIL

THE WEATHER CAN BE AN UNPREDICTABLE FORCE, and try as we might, it's impossible to perfectly foresee what Mother Nature will throw at us next, or how severe it may be.

One of the main things to keep an eye out for is inclement weather, which is classified as any severe or harsh weather condition that makes it unsafe or impractical to travel, commute, or work outdoors.[1]

Any abnormal or harsh climatic conditions, such as severe snow, sleet, frigid temperatures, heavy rain, hurricanes, high winds, tornadoes, drought, and wildfires, all fall into the category of inclement weather.

During these events, normal work of a non-emergency nature should be carefully evaluated, as it may not be reasonable or safe to be exposed to any of these conditions, or possible to continue working in a safe manner during regular working hours.

Forecast alert

Pay attention to the National Weather Service as they issue watches, warnings, and advisories across various media channels. Listen and watch for sirens or alerts that may dictate if you and your employees should avoid travel, seek shelter, or be prepared to weather a storm for a period of time.

A dangerous commute

Wherever you work, severe weather can impact any type of travel. Driving already comes with plenty of risks, but a daily commute can turn even more dangerous as harsh weather sets in. If you live in a climate that often has high chances of inclement weather, preparing well in advance before it strikes is a good idea.

Keep emergency kits in your vehicle, let others know your destination, and be sure your cell phone is charged in case you need to call emergency services. Remember, what may not be considered inclement weather in some parts of the country could be devastating in others. For example, consider the impact of snow in southern states, where they lack snowplows and de-icing equipment.

Weather procedure

You should prepare emergency preparedness procedures in advance of inclement weather to provide clarity for all employees. Avoid ambiguity, and create clear guidelines to follow so that employees know how to act or react.

Consider things such as:

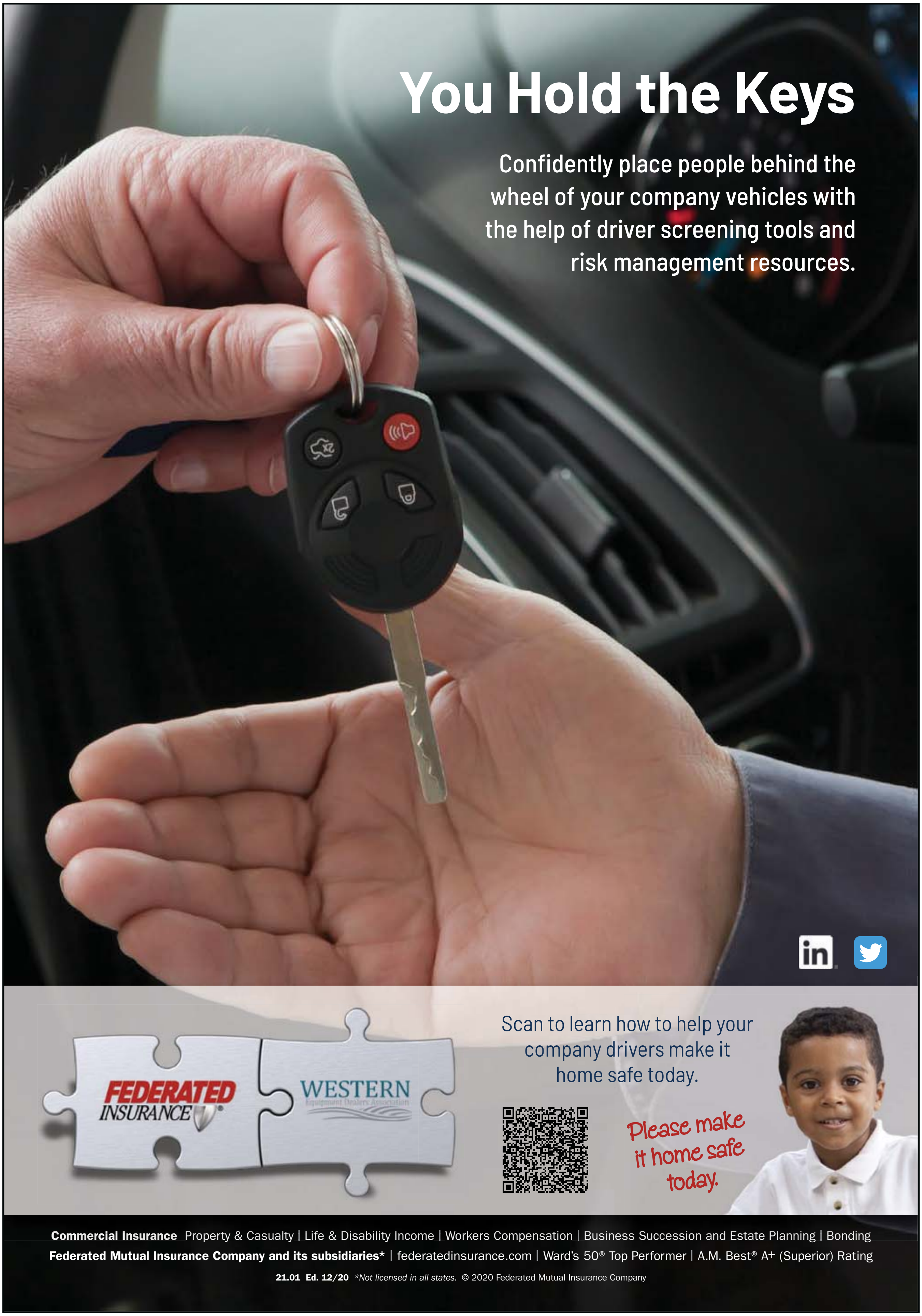
- Conveying communication protocols before a weather event occurs.
- Offering temporary remote work, if possible.
- Sheltering or evacuation procedures.
- Worker safety for those on location or working in the field.

Inclement weather can occur at any time, and has been increasing in severity and frequency in recent years.[2] The impacts of inclement weather can be dangerous, devastating, and long-lasting. Knowing the signs and signals of inclement weather could help to save lives. Pay attention to the weather forecast and plan in advance before you or your workers step outside. WED

[1] https://www.alertmedia.com/blog/inclement-weather-policy

[2] https://www.epa.gov/climate-indicators/weather-climate

JERRY LEEMKUIL is an equipment dealer specialist for Association Risk Management Services, Federated Insurance Company. For information, write to Jerry at jjleemkuil@fedins.com or call 1-507-455-5507.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WEDA Summer Golf Classic benefits association foundation

Hacker's paradise

By WEDA Staff

▲ This group of golfers tees off from a hole sponsored by Tax Favored Benefits.

CALLING A GOLFER A HACKER is not the most flattering of terms, but it's offered here with affection and appreciation to the more than 70 hackers who participated in WEDA'S summer golf classic.

To help you think of something other than being cold, here's a summer rewind of an association golf outing held at Falcon Lakes Golf Club in Basehor, Kansas. The event was a fundraiser for the Western Equipment Dealers Foundation, which supports the Agricultural Technician Program at OSUIT and provides scholarship funds to students enrolled in agricultural studies.

Jennifer Orr, WEDA's member services manager, said an early morning start to the event allowed participants to finish their rounds and get inside before the searing heat of last August took hold. Once inside, golfers were treated to lunch and prizes were presented to the top teams and individual performers.

"We raised more than $17,000 for the Western Equipment Dealers Foundation at Falcon Lakes," said Orr. "We also had the support of some amazing sponsors."

The post-tournament cooldown included lunch and prizes for winning teams and individual performers.

The "amazing sponsors" of WEDA's Summer Golf Classic greeted golfers all over the course. It sure does look warm and inviting.

Continued on page 28

Continued from page 26

WESTERN Equipment Dealers Foundation

WEDA Summer Golf Classic benefits association foundation

David Coon (seated) and David Martin, both with OSUIT, park their cart to take a break from helping WEDA event organizers.

On a hot day, a cooler full of something refreshing is all a golfer needs. First responder Brian Taylor, a captain with KCKFD Station 19, is standing with a new best friend, a cooler provided by John Deere.

A generous act

One sponsor, West Texas National Bank, was unable to fill out all of its teams. At the lender's request, Orr was asked to invite local first responders… and they responded to this act of generosity.

Recipients of the WTNB's generosity were Chris Carroll, Steve Pope, Brian Taylor, Ryan Johnson, Jim Walsh, Travis Adamson, Jorge Barajas, and Tyler Walters of the Kansas City Kansas Fire Department and one flight took home top honors. Now that is truly amazing.

Here is a list of the winners and their sponsors.

- 1st Place Flight A: Chris Carroll, Steve Pope, Brian Taylor, and Ryan Johnson, Kansas City Kansas Fire Department members, invited and sponsored by West Texas National Bank
- 2nd Place Flight A: Ryan Hough, Bobby Partin, Sean Weyrich, and Jake Van Horn, John Deere
- 1st Place Flight B: Mark Smith, Cole Miller, Weston Winfrey, and Steve Morgan, Ag Direct
- 2nd Place Flight B: Richard Dugan, Jerry Jackson, Dustin Scott and Adam Turner, KanEquip
- Longest Drive–Ladies: Jennie Halverson, Fern Expo Services
- Longest Drive–Men: Anthony Dahl, Foley Equipment
- Longest Putt: Jerry Leemkuil, Federated Insurance
- Closest to the Pin: Bobby Partin, John Deere

Nate Weathers is the winner of two rocking camp chairs provided by American Implement.

Volunteer service

The Western Equipment Dealers Association is also grateful to the volunteers who made the golf outing run smoothly. Greg and Loretta Russell of A.C. Printing manned the big hole-in-one hole. Danny Coon and David Martin of OSUIT were also on hand to coordinate the Bubba Watson fun hole.

The golfers… and their winnings

Before heading to the winner's circle, golfers had to hack their way from one hole to the next.

Adam Turner shows off his new cooler provided by Federated Insurance.

Infrastucture Bill passes

Closing the digital divide

By ERIC WAREHAM

After years of acknowledging that rural America was falling behind its urban counterparts in so many ways, it took a pandemic-level event to finally convince policymakers something needed to be done.

In 2017, the Federal Communications Commission estimated it would take $40 billion to close the digital divide by bringing a fiber network to 98% of America, mostly in rural areas. That large figure had been bandied about for nearly a decade in Washington, D.C. without any real effort to get the funding passed. All the while, if you attended any type of conference involving agricultural or rural issues in that time, you were certain to hear discussions about the lack of rural broadband ad nauseum.

Now, with the passage of the $1.2 trillion infrastructure package, it appears the dam has finally broken. The money has been allocated and is already resulting in immediate projects that have been in the makings for years. After years of acknowledging that rural America was falling behind its urban counterparts in so many ways, it took a pandemic-level event to finally convince policymakers something needed to be done.

Broadband funding

The $1.2 trillion legislation passed the Senate 69-30. That very nontypical bipartisan vote these days came about in large part because every state, both red and blue, has substantial infrastructure maintenance and project backlogs. Many Republican senators voted for the measure because their states have woefully inadequate broadband, and the bill provided funding for every state.

There has been a lot of talk about topline numbers in the infrastructure bill, but not much coverage breaking down the funding contained in the bill.

As for broadband investment, the numbers look like this. For starters, every state received $100 million for broadband projects, largely discretionary. That was part of an overall package allocating $65 billion for broadband investment. Of that money, $42 billion will be used to deploy broadband where it doesn't currently exist. This will be equivalent to the "last mile" slogan that was used during the rural electrification push in the 1930s, although there isn't an equivalently catchy phrase for today's efforts.

Additional funding includes $14.2 billion for a permanent $30 per month subsidy for low-income households to receive broadband. Another $2.75 billion was allocated toward "digital equity" by ending the practice of carriers avoiding providing service in areas they won't make money, also known as redlining. That is supposed to be aimed at racial minority areas, but it sounds more like rural areas.

Broadband helping dealerships

It is probably obvious how ubiquitous rural broadband will help dealers, but let's put a finer point on it. A few years ago, WEDA conducted a survey of dealers to find out if the lack of rural broadband was affecting their dealerships and customers. No one was surprised the survey showed it was because it reduced the availability of remote diagnostic capabilities, among other things. In another recent survey, we asked the same question again. The same

ERIC WAREHAM is vice-president of government affairs for the Western Equipment Dealers Association.

For the past two decades, the industry has been in the technological phase of growth, all while lacking the digital infrastructure to really realize those productivity gains.

percentage of respondents, around 79%, still said that expanded rural broadband would improve the use of remote diagnostic capabilities.

Another question we asked in the survey highlights why remote diagnostics are so important. We asked dealers what percentage of parts are sold out the door. In other words, parts sold that are not installed by the dealership. What we found was the average dealership sells 56% of its parts out the door. Another way to look at that is dealers are constantly struggling with technician capacity to serve their customers and it seems that every dealership is at full capacity right now.

These statistics taken together show that if dealers want to be able to service more customers and increase customer uptime, which is the goal of every dealership, they need to hire a lot more technicians or become more efficient with the technicians they have. One obvious way to that is by using remote diagnostics more frequently rather than sending technicians out on service calls.

Having rural broadband available at every farm will rapidly increase the availability of remote diagnostics and hopefully go a long way toward increasing productivity in the dealership and ultimately increasing uptime for customers.

While it's highly doubtful that legislators had this effect on their minds when considering their votes for the infrastructure bill, it certainly is one positive consequence that will come out of it. Agriculture has long surpassed mechanization as the primary driver of increased productivity. For the past two decades, the industry has been in the technological phase of growth, all while lacking the digital infrastructure to really realize those productivity gains.

With the tightening labor market, inflation and a host of other factors happening today, it can truly be said that it's better late than never to finally close the digital divide. WED

ERIC WAREHAM is vice president of government affairs for the Western Equipment Dealers Association. He is a graduate of the Willamette University College of Law and Augusta State University. Eric may be reached by writing to ewareham@westerneda.com.

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

U.S. – November 2021 Ag Tractor and Combine Report	November			Y-T-D November			November 2021
	2021	2020	% Chg	2021	2020	% Chg	Beginning Inventory
2WD < 40 HP	11,469	10,741	6.8	200,676	182,633	9.9	41,014
2WD 40 < 100 HP	4,486	4,069	10.2	68,242	61,022	11.8	15,667
2WD 100+ HP	1,211	925	30.9	20,917	16,945	23.4	5,253
Total 2WD Farm Tractors	17,166	15,735	9.1	289,835	260,600	11.2	61,934
Total 4WD Farm Tractors	154	200	-23.0	3,137	2,679	17.1	385
Total Farm Tractors	17,320	15,935	8.7	292,972	263,279	11.3	62,319
Self-Propelled Combines	288	209	37.8	5,658	4,525	25.0	499

Data provided by the Association of Equipment Manufacturers.

Aftermarket departments see positive trends in 2021

By KELLY MATHISON

WE KNOW THE PAST 24 months have been challenging to say the least. There have been pandemic lockdowns, restrictions, supply shortages, and labor shortages, just to name a few. However, Parts and Service Departments have risen to the challenge.

First, I want to send a "shout-out" to all the men and women that support our customers and producers. These people continued to put in the hard work to support producers who, in turn, feed the world.

The *2021 WEDA Cost of Doing Business Study* shows us some positive trends in the aftermarket departments throughout North America. In this article, I will point out some of the trends of these key metrics.

Total aftermarket revenues

Both Parts and Service saw increases in overall sales volume, with Parts up 12% and Service up 17% vs. the previous year.

- Parts Sales mix held its own at 16.7 % of total dealership sales.
- Service Sales mix was at the highest level in five years at 6.9% of total sales.

Gross margins

We know that Gross Margin dollars are required to pay the bills, and the Gross Margin percent is used solely for trend analysis, so we will look at both metrics.

Parts

Parts Gross Margin dollars saw an average $212,000 increase per location, and Gross Margin reached 35.3%. Perhaps this was due to dealers selling off aged stock, holding margins, or being more proactive with stock order purchases to ensure adequate inventory. We may have also seen less discounting on parts as inventories tightened.

Service

Service sales volumes were up, with an average increase of about $34,000 per location in Gross Margin dollars. Although this is good news, we saw an overall drop in service Gross Margin percent to 56.8%. Since the cost of goods sold, or COGS, is primarily tech wages, this drop could be attributed to the loss of productivity when technicians' wages continued to be paid even if they were unable to come to work.

Continued on page 34

Parts Sales (000's)

	Parts Sales	YTY Sales Increase	Parts Sales Mix
2021	$2,846	12%	16.7%
2020	$2,548	3%	16.7%
2019	$2,467	26%	16.3%
2018	$1,956	(16%)	18.0%
2017	$2,338	6%	17.9%

Parts Sales Mix Target >20%

Service Sales (000's)

	Service Revenue	Sales Increase	Service Sales Mix
2021	$1,166	17%	6.9%
2020	$996	1%	6.5%
2019	$992	49%	6.5%
2018	$667	(25%)	6.1%
2017	$886	(3%)	6.8%

Service Sales Mix Target >10%

Parts Gross Margins (000's)

	Margin Dollars	Margin Percent
2021	$1,004	35.3%
2020	$790	31.0%
2019	$763	30.9%
2018	$587	30.0%
2017	$706	30.2%

Industry Target >32%

Service Gross Margins (000's)

	Margin Dollars	Margin Percent
2021	$663	56.8%
2020	$629	63.1%
2019	$596	60.1%
2018	$419	62.7%
2017	$533	60.2%

Service Gross Margin Target >60%

Our commitment…

Providing scholarships for the benefit of dealers, employees and the equipment industry.

Students are the future of our industry's success - and WEDA is committed to help members get one step closer to filling vacancies with the Western Equipment Dealers Foundation (WEDF). Scholarships are awarded annually to student(s) and member employees interested in pursuing a degree program relative to the equipment industry. From ag economics and business management to technician training at OSUIT, we're committed to building a prosperous future for the equipment industry.

Tax Benefits for Your Dealership

Tax breaks for charitable giving aren't limited to individuals, your business can benefit as well!

Be a part of the future by including WEDF in your charitable contributions.

Questions? Interested in Corporate Giving/Donations and Foundation Sponsorships? Contact us for details.

Partner with us!

Jennifer Orr
800-762-5616
jorr@westerneda.com

WESTERN Equipment Dealers Foundation

Aftermarket departments see positive trends in 2021

Continued from page 32

Expenses

Reported expenses across most dealer locations remained relatively flat. However, some of that may have been due to government wage assistance programs or deferral of some expenses. We expect to see a rise in expenses as inflation on everything from energy to supplies is on its way up.

Department managers need to take this into consideration when they are making their 2022 budgets.

Aftermarket absorption

My regular followers know that this is one of my top metrics. Contribution margin refers to the Gross Margin dollars that parts and service departments contribute to cover the overall dealership expenses.

Absorption ratio is the percent of total expenses covered by parts and service. This becomes more critical in periods of lower whole goods sales or whole goods inventory disruptions. High aftermarket absorption will "bulletproof" your dealership. The long-term goal should be that the parts and service departments cover 100% of your monthly and annual fixed costs to protect you from the ebb and flow of whole goods sales.

In 2021, we saw a dramatic shift in Aftermarket Absorption with the average increasing to 73.2%. It appears large dealer groups (>$75 million) have really focused on aftermarket absorption. Medium and smaller dealers will have to shift their focus to this critical area.

Final thoughts

Although these trends may be cause for celebration, we have some major hurdles to overcome in 2022 and beyond. We will continue with supply chain issues; inflation and energy costs are showing no signs of slowing. Labor costs are sure to increase as workers will likely demand wages to increase at or above the rate of inflation. WED

For a copy of the *2021 WEDA Cost of Doing Business Study*, call the WEDA office in Kansas City, Missouri, at (800) 762-5616, the WEDA office in Calgary, Alberta, at (800) 661-2452 or info@westerneda.com. The study is free to dealers who participated in the study. Additional information is available at www.westerneda.com/cost-of-doing-business-study.

Total Expenses (000's)

	Total Expenses	Expenses as % of Revenue
2021	$2,278	13.4%
2020	$2,221	14.6%
2019	$2,109	13.9%
2018	$1,653	15.2%
2017	$2,025	15.5%

Total Expenses Target >12.5%

Parts & Service Absorption

	Average Dealer	<$25 million	$25-$75 million	>$75 million
2021	73.2%	52.7%	67.3%	76.5%
2020	63.9%	53.8%	58.9%	66.8%
2019	64.4%	52.3%	49.9%	69.8%
2018	60.9%	55.1%	65.4%	61.5%
2017	61.2%	59.0%	60.0%	56.8%

Absorption Target 100%

EDITOR'S NOTE

KELLY MATHISON

Thank you, Kelly . . .

This edition of *Top Metrics to Watch* will be the last column from Kelly Mathison. Kelly is retiring after a stellar 30-year career in the equipment industry.

Mathison started his career as a sales representative during the high-interest crunch of the 1980s. He then spent 10 years in sales and marketing with the distributor and wholesale manufacturer, Flexi Coil, covering Canada, Australia and the U.S. In 1996, he became a partner in a single store John Deere dealership in Brandon, Manitoba. Over the next 12 years, it grew from one store to seven when the dealership merged with Enns Brothers in 2008. Over the years, Mathison gained experience as a sales manager, aftermarket manager, general manager, and group marketing manager. In 2011, Mathison sold his partnership interest and became group product support manager with Chesterfield Australia, one of the country's largest John Deere dealer groups.

In 2014, Mathison launched a consulting and training company, Kayzen Management, and in 2015 he joined Western Equipment Dealers Association's Dealer Institute as a consultant and trainer. He has used his unique, real-life experience and time-tested best practice solutions to train hundreds of dealership employees.

Thank you, Kelly, for your service to WEDA, the industry and your commitment to the success and profitability of dealerships throughout North America.

WESTERN Equipment Dealer

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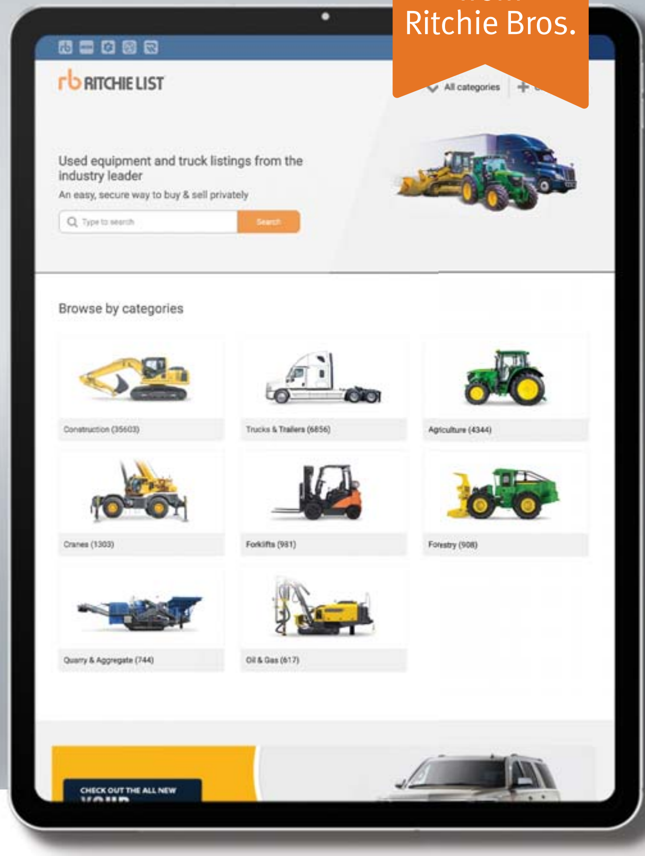

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