

**Location strategy within the dealer channel**

by

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## **ABSTRACT**

In the world of fast paced competition with a focus on profits, small businesses are always looking for ways to stay ahead of their competition. One way to maintain the competitive advantage is to join forces with another small business that sells and services similar products. Mergers and acquisitions have been very common in agribusiness since the farm economy collapse in the early 1980s. Farms have been increasing in size, equipment has been growing in complexity with new technologies and size to keep up with growing farm size and equipment manufacturers are merging to create larger corporations that offer more solutions to the end user.

Additionally, fewer machines are being purchased by growers and producers each year and the machines that are being purchased are able to do more than previous models. The new complexities require highly trained and skilled technicians to make repairs and service these machines. Farming practices continue to evolve with more limited- and no-till crop production. These factors are contributing to dealers forming larger multi-store operations with trade areas large enough to provide an adequate return on investment to attract the resources required to sell and support technologically advanced agricultural equipment. Large multi-store organizations support the requirement of customers by providing higher levels of customer service. As these large organizations increase in size they ensure a more sustainable business model with reduced fixed expenses leading to higher returns on sales and increased total sales.

This study will examine two multi-store farm equipment farm equipment dealerships with a total of a total of eleven locations and make recommendations to create a merger

of equals. The analysis will include a review of current sales data at each location and make recommendations for any new locations strategy using industry data as well. This information will help determine which locations should be eliminated or combined into single locations to reduce expenses. The study will also provide data to support implementing standard job pricing in the new organization. A new functional management structure will also be recommended to guide the new company towards increased sales revenues and position the organization for long term growth and sustainability.

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## **CHAPTER I: INTRODUCTION**

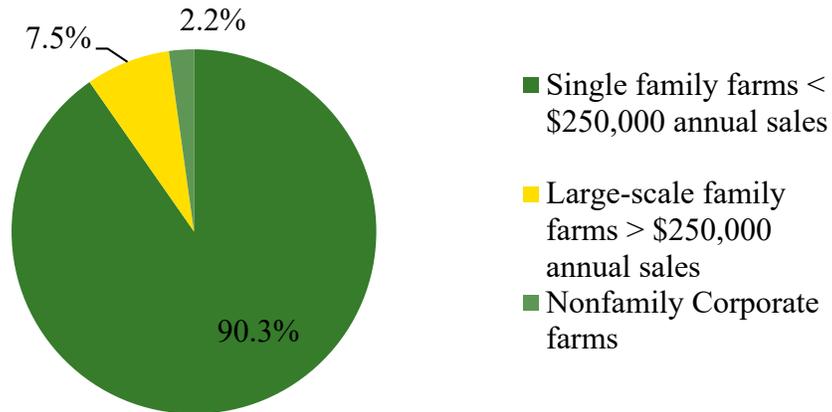
In the world of fast paced competition with a focus on profits, small businesses are always looking for ways to stay ahead of their competition. One way to maintain the competitive advantage is to join forces with another small business that sells and services similar products. Mergers and acquisitions have been very common in agribusiness since the farm economy collapse in the early 1980s. Farms have been increasing in size; equipment has been growing in complexity and size to keep up with increasing farm size, and equipment manufacturers are merging to create larger corporations that offer more advanced solutions to the end user. Seed and chemical companies are following suit and merging to create larger operations as well. In more rural settings, even local coops are merging with each other to compete with larger grain buying organizations such as Cargill and Bunge. In the past, equipment dealer acquisitions have been more common throughout the independent dealer network; however, as dealer organizations become larger through acquisitions and still have a desire to grow, they look to expand their reach through horizontal mergers with neighboring dealers.

### **1.1 Industry Forces of Change**

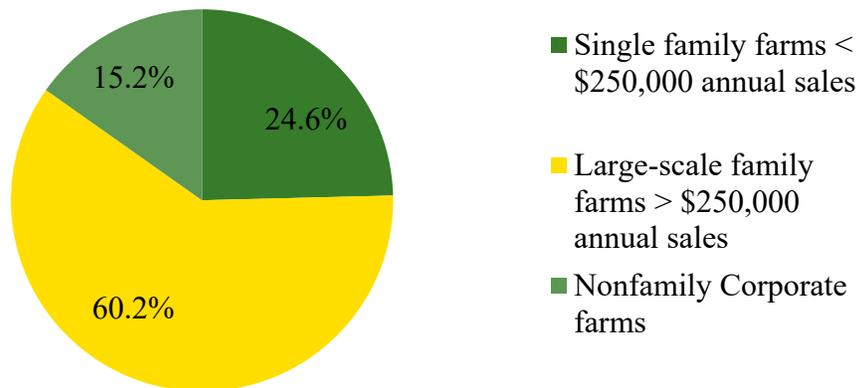
Because farm equipment dealers work directly with farmers, changes in the farm equipment retail sales industry tends to mimic the changes in the farm numbers and sizes. Farms numbers are declining as farm size increases. Advances in agricultural production technology have resulted in the substitution of chemicals, larger equipment, precision farming tools and other inputs to replace farm labor and increase the acres of cropland that can be farmed by one person. The result has been consolidation of farm numbers.

In addition, the largest farms are producing most of the value from agricultural production. Over 90-percent of the farms are single-family farms with gross income of less than \$250,000, but those 90-percent account for less than 25-percent of the value of agricultural production (see figures 1.1 and 1.2). The other 75-percent of the production is produced by the less than 10-percent of farms that are large-scale, family farms and nonfamily corporate farms. It is these very large farms that provide the most valuable business opportunities for a dealer.

**Figure 1.1 Percent of Total Farms in 2004**



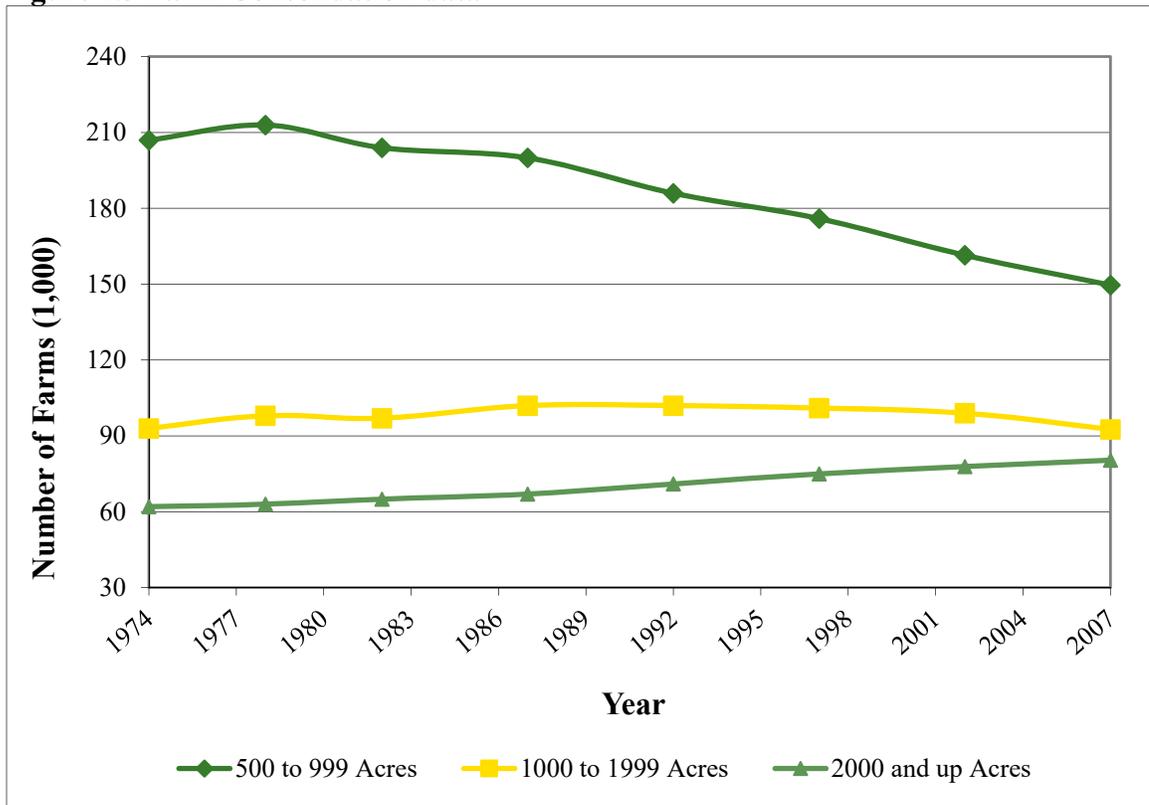
**Figure 1.2 Percent of Value of Production in 2004**



Source: USDA, Economic Research Service, 2004 Agricultural Resource Management Survey, Phase III

Figure 1.3 shows the decline in the number of small and medium sized farms as well as the increase in the number of large farms since the early 1970s. Especially note that the number of large farms has increased over the prior year for each and every year since 1974. The number has grown from just over 62,000 in 1974 to 80,000 in 2007.

**Figure 1.3 Farm Consolidation data**



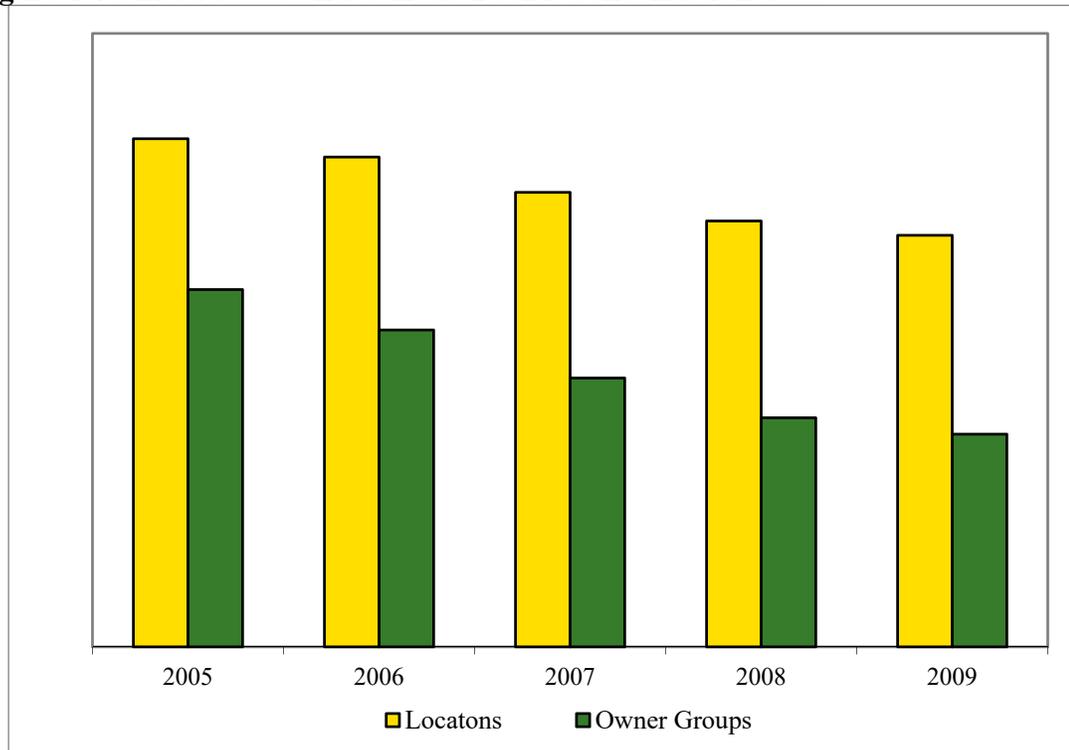
Source: USDA, National Agricultural Statistics Service

The growth in size of farms is the result of farmers taking advantage of economies of scale present in today's farming. As farmers expand acres farmed, the distance between farms increases, as well. Furthermore, larger farms use fewer, but large machines for the

same acres as would the small farm. That reduces the number of machines on the farms and the number of farm equipment dealers needed to service those farms.

Dealer consolidation is taking place across the entire United States and Canadian dealer channel for both agricultural combination dealers (dealers selling agricultural and turf equipment) as well as a decline in the number of independent turf dealers. Dealer owner groups have declined by 40-percent between 2004 and 2009, but the number of dealer stores has declined only 19-percent. Those changes are the result of consolidation among owner groups, but with less consolidation of store locations. One advantage of larger owner groups is the ability of top management to manage a larger operation more efficiently and effectively by using better management techniques that are possible with larger scale. Some of the data points used in this document have been made up to protect confidential dealer information.

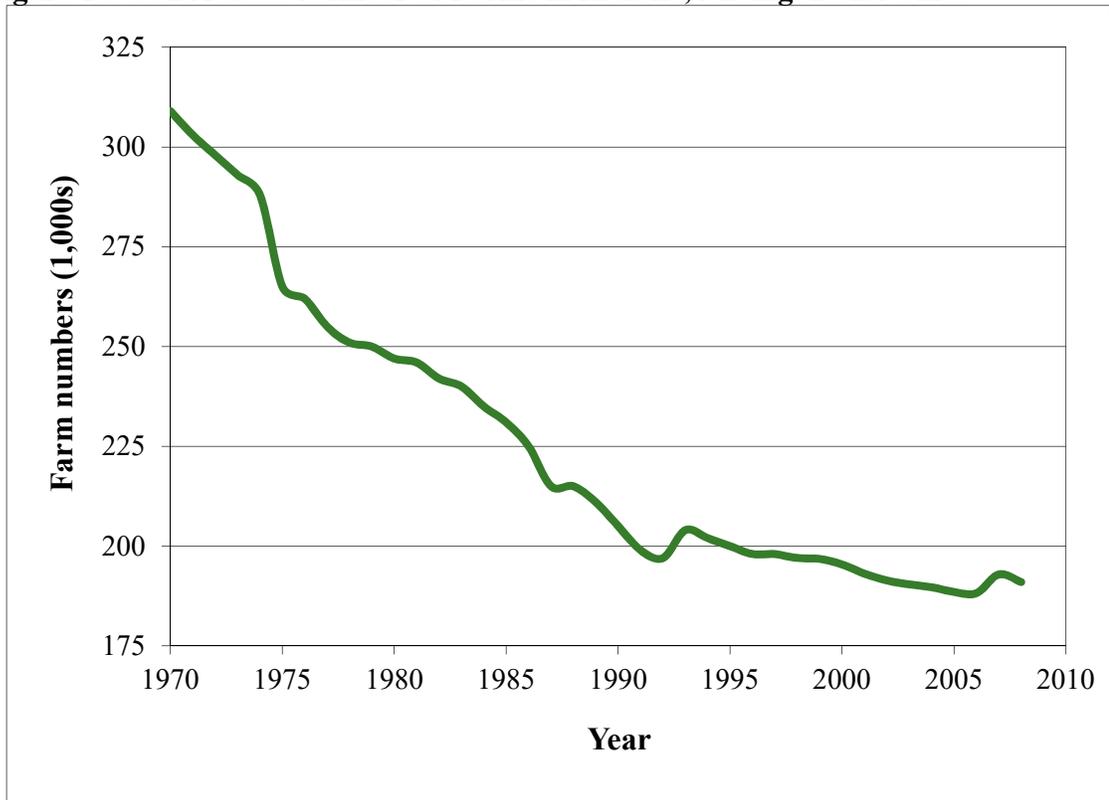
**Figure 1.4 United States and Canada Dealer Consolidation data**



Source: Lenexa Dealer Development Group

The subject of this thesis is the potential merger of two John Deere dealers operating in the three states of Indiana, Michigan and Ohio. In those three states farm numbers have fallen from about 310,000 in 1970 to 190,000 in 2008 (figure 1.5). Declining farm numbers leads to fewer pieces of equipment sold and an overall decrease in industry potential across a dealership's trade area.

**Figure 1.5 USDA data: Number of Farms in Indiana, Michigan and Ohio.**



Source: USDA, National Agricultural Statistics Service

The growth in dealership size can be seen in the size of an equipment dealer's trade area also known as their area of responsibility (AOR) and is true with dealership expansion across the country. The reduction in dealer owner groups is something that all equipment manufacturers are experiencing. Dealers realize that they can cover the same area just as effectively with fewer locations and lower operating assets in the form of buildings, furnishings and inventories, yet provide higher customer satisfaction.

The most notable example of dealer growth and consolidations is with Titan Machinery, a Case New Holland dealer of agricultural and construction equipment. It has grown to 72 locations in seven states. While dealership owners are closing some locations,

they are not closing as many as might be suggested with a location rationalization policy for that trade area. The work here on a dealership merger will develop a rationalization policy for the two dealers considering the merger.

Robert Lane, former CEO of Deere & Company, states, “In an age when tractors use satellites to track the location of every seed, dealers must match the sophistication and size of agribusiness customers” (Brat 2007). The larger customer demands higher levels of service and support than the average family farmer. They are operating a large business and look at the operation differently than a family farmer who may see farming more as a way of life. Owners of larger farms see farming as a business and, typically, do not work off the farm. Such owners use the most advanced machinery and technology to track seed placement and handle custom seed and fertilizer prescriptions for each field or a portion of a field thereby decrease seed and fertilizer waste and cost. Such farmers want a dealer who understands that technology and is well equipped to provide the service expected in order in order to maximize a machine’s potential. Those farmer-customers understand that a larger dealer will be better equipped to handle these situations on a day-to-day basis.

## **1.2 Project Objectives**

This study will analyze small business mergers in the context of two existing independent John Deere dealers, ABC Company and XYZ dealer. They have had discussions in recent years about joining forces to have a larger footprint and Area of Responsibility (AOR) in the region, but they have not come to terms on a merger. Both are high performers in John Deere’s Dealer of Tomorrow (DoT) strategy, which is based on

several metrics of a dealer performance. The overall agricultural economy has increased industry sales potentials above those in the late 1990s and early 2000s. If the two organizations are not more effective in selling equipment than their competition, John Deere sales in their area will decline. With that in mind, they could fall below John Deere's performance standards and risk falling out of the high performance category.

The main objective of this project is to analyze the potential to merge the two into one larger organization to capitalize on economies of scale in the agricultural machinery business. To accomplish that well, the study will examine the industry potential for the organization to support a comprehensive location strategy which will reduce the number of locations. Maps showing drive times surrounding each location will support the location rationalization plan. Additionally data analysis on dealers across the United States will be analyzed to determine the net effects of implementing standard job pricing in the new organization. This should help address a new location strategy, as there are currently 11 locations between the two organizations and a new organizational structure will be developed that maximizes the social capital from each organization. This analysis will provide information on how to best implement the merger and to modernize the management system in the new organization. Important to any merger or acquisition is change management and a well-executed integration plan. The management of both organizations should work on this before, during, and after merger activities are completed.

Finally, a Dealer of Tomorrow scorecard will be developed showing the combined metrics in relation to the long term goals.

The merger is especially important to XYZ Dealer. It had been a top dealership but has slipped in the eyes of John Deere sales management, who is of the opinion it needs to take action to get revitalized. Merging with ABC Company would allow the two dealerships to pool their resources and benefit from efficiencies that a larger size offers. The benefits include lower employee benefit costs. That would allow the new firm to attract and retain more knowledgeable employees and to offer better career advancement opportunities that come with a larger dealer organization. Along with higher effectiveness and efficiency should come gains in market share, which will translate into more sales and higher profits.

To capitalize on the potential in each customer segment, the organization will be able to restructure into specific departments for each segment: turf and utility, commercial worksite products and agricultural. Customers will benefit from the dealership's increased focus on customer's experience. ABC Company, the other partner to the merger, already provides customer training sessions and clinics, for example. They foster stronger relationships with customers. The merged organization will also benefit from volume buying power with John Deere in the form of increased discounts on aftermarket parts, various early order programs for attachments and bonus programs for meeting sales targets.

## CHAPTER II: LITERATURE REVIEW

In analyzing past mergers within the independent dealer network, there are very important items that can get overlooked during the merger process of bringing together two equal organizations into a new stronger organization. Those items include planning, communication, social capital, strategy and a formal integration process. This section will focus on a review of the literature surrounding those particular topics.

### 2.1 Change Management

Any time organizations undergo a merger, change becomes a big part of the culture in the new organization; employees at all levels will feel some type of change during the transition period. Change management plays a huge role in relationships with mergers and acquisitions (Galpin and Robinson 1997). For one thing, timely mergers and acquisitions are among the important developmental responses to market-based change. Change will be a big part of the decision by both parties and should not be taken lightly as the merger progresses. Galpin and Robinson go on to say that, “many executives responsible for making mergers and acquisitions work fail to see the link to the change management discipline. . . . Before people become curious about combined market share or start thinking about the integration of data bases, they consider the impact on themselves personally (25).” To combat the issue of uncertainty and resistance to change, companies should provide “clear and constant communications throughout the integration” process this action will provide decisive answers and dispel any rumors that always occur during a transition. The communication should not stop with employees; it should continue on with

customers as well to dispel any rumors that begin in coffee shops and spread very quickly from customer to customer. This will help the new organization do what they do best and that is service customers. Galpin and Robinson go on to say that a special advertising campaign should be aimed at communicating to customers that there is a continued commitment to service. These actions will boost sales and service, but must be planned and executed quickly. Again, Galpin and Robinson say that there are seldom easy, clear-cut answers for these issues. Still, management must make the decisions quickly, implement them, and stand by their decisions. Otherwise, employees of both original companies will send out messages that management is unorganized and indecisive and that the merger lacks leadership.

## **2.2 Importance of Business Planning**

The literature strongly supports the argument that planning is a key issue in small businesses just as in large businesses. Planning not only increases the success rate of businesses but also affects the level of performance (Rue and Ibrahim 1998). The work by Rue and Ibrahim shows that greater planning sophistication is associated with growth in sales. The study also suggests that there is a moderately significant relationship between planning and perceived performance relative to the industry. The study divided the businesses surveyed into three categories: those with no written plans, those with moderately sophisticated plans, and those with sophisticated plans. Table 2.1 shows the relationship between growth and planning. While 54 percent of those with sophisticated plans outperformed the industry average, only 43 percent with moderately sophisticated plans and 32 percent with no written plans outperformed the industry average. That

supports the conclusion that a comprehensive marketing plan with detailed information on each of the various customer segments and goals and projections for each department will provide a boost in sales for the dealer organization.

**Table 2.1 Relationship between Planning and Subjective Performance**

Performance	Degree of Planning Sophistication		
	Category I <sup>a</sup> No Written Plans (n = 100)	Category II <sup>b</sup> Moderately Sophisticated Planning (n = 86)	Category III Sophisticated Planning (n = 63)
Below Industry Average	17 (17percent)	10 (11.6 percent)	7 (11.1 percent)
Approximately Equal to Industry Average	51% (51 percent)	39 (45.3 percent)	22 (34.9 percent)
Above Industry Average	32 (32 percent)	37 (43 percent)	34 (54 percent)

Source: Rue and Ibrahim 1998, pg 28

<sup>a</sup> Because of a missing value, one firm was not included in the analysis.

<sup>b</sup> Because of missing values, three firms were not included in the analysis.

In table 2.2, we start to see the relationship between planning and growth rates, this study was also performed by Rue and Ibrahim in 1998. Additionally, the study continues with the same three categories of firms as the level of the independent variable and the growth rate in sales for the 1998 fiscal year as the dependent variable. The results of the Rue and Ibrahim study showed a significant relationship between planning sophistication and growth rates.

**Table 2.2 Relationship between Planning Sophistication and Growth Rate in Sales**

Category	N	Mean Growth Rate (percent)	Standard Deviation (percent)
No Written Plans	101	3.18	1.58

Moderately Sophisticated plans	89	3.94	1.71
Sophisticated Planning	63	3.97	1.85

Source: Rue and Ibrahim 1998, pg 29. -  $F = 6.999$ ;  $p = 0.0019$

### 2.3 Social Capital

Along with economic capital, social capital is a valuable mechanism in economic growth. Social Capital, as defined by Dictionary.com, is the economic concept that the connections between individuals and entities can be economically valuable. Social networks that include people who trust and assist each other can be a powerful asset to any organization. The relationships between individuals and firms can lead to a state in which each will think of the other when an important task needs to be completed. Considering social capital at the individual, group, and organizational interaction levels, we begin to see that it plays a significant role in improving performance at all levels (Akdere and Roberts, 2008). Akdere and Roberts go on to say that “at the organizational level there are many positive impacts of social capital, the first being that social capital, unlike other forms does not depreciate with use but rather increases. However, social capital will depreciate when it is neglected or not maintained.” In addition to saving money, the organization will experience performance increases attributable to the organizational stability and greater shared organizational memory as a result of a greater cohesion in the workforce (Akdere 2008).

## **2.4 Post Merger Integration**

The next phase in a merger should be that of integrating the two firms into one firm that is striving towards a common goal or set of goals. Post merger integration should be completed as soon as possible and should be planned very early in the discussion phase of the merger. There are numerous explanations for failure, the seven determinates of merger success have been identified as strategic vision, strategic fit, deal structure, due diligence, pre-merger planning, post-merger integration and external environment (Epstein, 2004). Epstein goes on to say that “post-merger integration must be considered simultaneously with, and in the context of, the other determinants of merger success.” He lists the five drivers of successful post-merger integration as follows: coherent integration strategy, strong integration team, communication, speed in implementation, and aligned measurements. These tasks were written for large corporate mergers, but they are relevant in the case of a small business merger as well. As such, the most important steps to utilize in the case of dealer mergers would be the coherent integration strategy, communication, speed, and aligned measurements which should tend to be the same metrics that both organizations used prior to the merger. The first in this list is that of a coherent integration strategy, developed by the management of both organizations. The new organization should be sure to have a well-articulated strategy that reinforces that this is a “merger of equals” rather than an acquisition according to Epstein. If the name of one company is being adopted, extra effort should be made to reach out to customers of the other company, so that customers understand their importance to the new organization (Epstein 2004). The integration team will be comprised of only a few members of both organizations and will

lay the groundwork for the post-merger organization. This step should be done with the appropriate John Deere field staff to assist in making recommendations on the process.

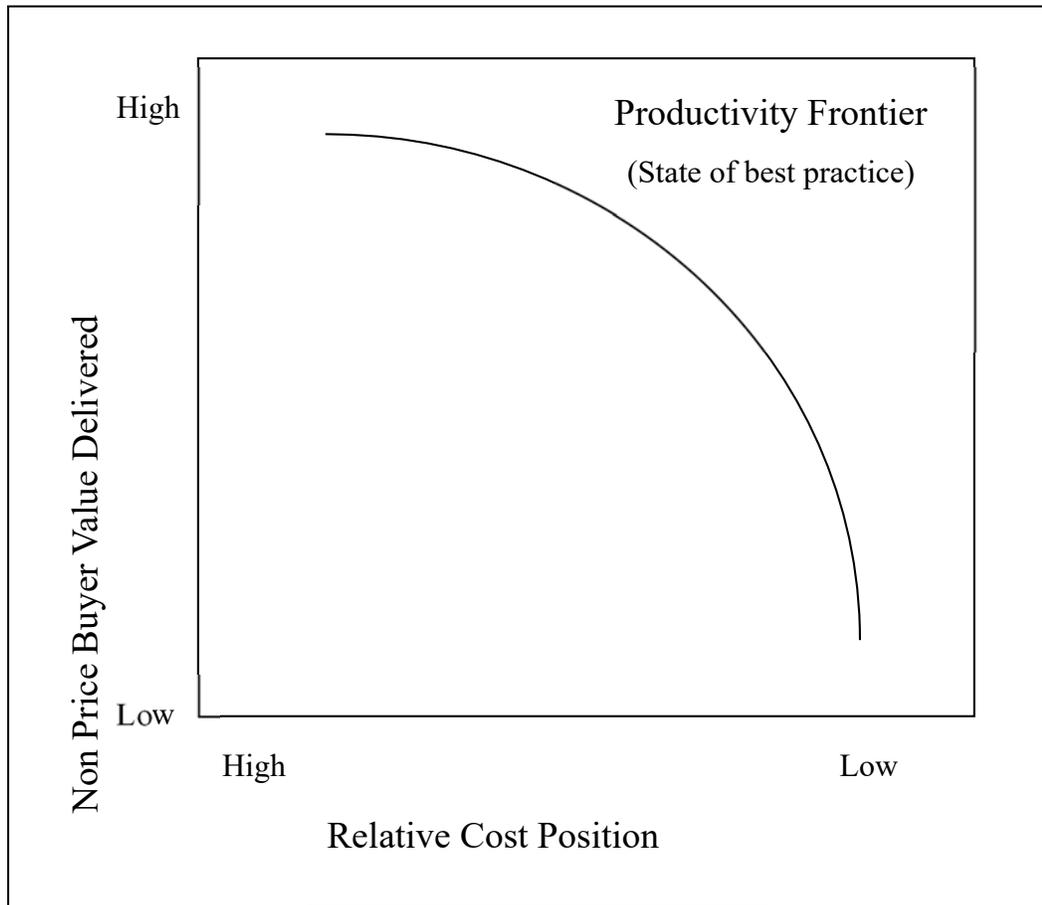
The next step is very important and could make or break the organization. This phase would be communicating to the employees why the two organizations merged and what that means for each of them. The management team should be consistent in the message delivered to employees to foster a single team going forward. Over-communication is a common element of success in post-merger integrations (Epstein 2004). The more information management shares with employees the more successful the merger will be. Communication will need to be planned during merger discussions and shared as often as possible which will increase the effectiveness of post merger integration activities.

Implementation speed is also of critical importance for successful mergers. Speed is essential to a successful post-merger integration, and fear and indecisiveness can often be obstacles to swift action. Early completion of integration projects can both mitigate risk and permit an earlier realization of merger benefits according to Epstein. Aligned measurements make up the final driver of post-merger integration success. The organization will need a clear definition and articulation of the drivers of success, how it will be achieved, and the appropriate measures of success. According to Epstein, a successful merger requires the creation of measures that are well-aligned with the merger strategy and vision of the organization. The new organization should develop a new mission statement that is revealed as quickly as possible when the merger is announced.

## **2.4 Strategy and Vision**

A main point in strategy formulation involves dealing with competition. However, it is all too easy to view competition too narrowly and too pessimistically; competition in industry is a good thing (Porter 1998, 21). Brand identification creates a barrier by forcing entrants to spend heavily to overcome customer loyalty. Advertising, customer service, being the first in the industry, and product differences are several factors that foster brand identification (Porter 1998, 24). A company will outperform rivals if it can establish a difference that it can preserve (Porter 1998, 40). Porter goes on to say that, “it must deliver greater value to customers or create comparable value at lower costs, or do both.” In contrast, strategic positioning means performing different activities from rivals’ or performing similar activities in different ways (Porter 1998, 40). As you can see in figure 2.1, there are trade-offs in positioning and operational effectiveness. Some companies better utilize their inputs than others because they eliminate wasted effort, employ more advanced technology, motivate employees better or have greater insight into managing specific activities. These differences in operational effectiveness are an important source of differences in profitability among competitors since they directly affect relative cost positions and levels of differentiation (Porter 1998, 41).

**Figure 2.1 Operational Effectiveness versus Strategic Planning**



Source: *On Competition*, Porter, Michael E.

Porter goes on to say that when a company improves its operational effectiveness, it moves toward the frontier. Doing so may ultimately require some level of capital investment, different personnel, or simply a new way of managing according to Porter. The productivity frontier is constantly shifting outward as new technologies and management approaches are developed and as new inputs become available (Porter 1998, 42). Porter's ideas relate to differentiation and help to reinforce the idea that the new organization needs to differentiate itself from the competition.

## 2.5 Brand Differentiation and Value Creation

Traditionally, the people responsible for positioning brands have concentrated on points of difference or the benefits that set each brand apart from the competition as Porter states. However, points of differentiation alone will not be enough to sustain a brand against competitors (Keller et al. 2002). Keller goes on to say that, “managers often pay too little attention to two other aspects of competitive positioning: understanding the frame of reference within which their brands work and addressing the features that brands have in common with competitors.” The new organization should look for ways to create added value for their customers. The new organization will be larger than in the past, and this in itself may drive customers away. As a result, the organization needs to build on the loyal customer following they have today. Loyalty is a deeply held commitment to repurchase or revisit a preferred product or service in the future despite influences and marketing efforts that attempt to change behavior (Kotler, 2009). Increased customer loyalty will come when the organization shows they offer higher value products and services than their competitors. The Blue Ocean Strategy refers to this as *Value Innovation* (Kim 2005, 12).

It is called *Value Innovation* because “you focus on making the competition irrelevant by creating a leap in value for buyers and your company, thereby opening up new and uncontested market space” according to Kim and Mauborgne. They go on to say that *Value Innovation* occurs only when companies align innovation with utility, price, and cost positions. If the technology innovators and market pioneers fail to anchor innovation with value in new ways, other companies often take advantage of the groundwork laid by these pioneers. Value Innovation is a new way of thinking about and executing strategy that

results in the creation of a blue ocean and a break from the competition in red oceans (Kim 2005, 13). A red ocean is the market space where all the competitors currently compete against each other. A blue ocean is a new market space that the firm has created to get out of competition with rivals by creating added value for the customer and create an uncontested market space free from competition. This is where value innovation comes into the equation; businesses that create added value will succeed in creating a blue ocean and reach new heights in profits and customer satisfaction. A blue ocean is created by driving down costs while at the same time driving up value for buyers (Kim 2005, 17).

### CHAPTER III: THEORY

As dealer organizations continue to grow in size and scale through mergers or acquisitions, the total sales increases with a larger trade area as a result of a more focused effort on growth. This analysis will include descriptive statistics on important dealer financial data and ratios compared to dealers across the United States. The study will also include an analysis of industry and dealer sales potentials in the affected trade area, as well as a location analysis using a mapping program to develop drive time zones. The metrics or values that will be part of this analysis are some of the same metrics on the Dealer of Tomorrow (DoT) scorecards as shown in table 3.1 as well as several other important performance measurements.

**Table 3.1 Dealer of Tomorrow Scorecard**

Performance Category	Dealer of Tomorrow Metrics
<b>Market</b>	Dealer Market Share
	<90hp Tractor Market Share
	Small Ag Market Share
	Large Ag Market Share
	Total Net Sales
	Ag Retail Sales
	Turf & Utility Sales
	Net Parts Purchased
<b>Customer</b>	Customer Experience
<b>Operational</b>	Net Operating Return on Assets
	Net Operating Return On Sales
	Total Asset Turnover
	Used Turnover
	Absorption
	Total Expenses to Sales

Source: Lenexa Dealer Development

The project will also make recommendations on standard job pricing explaining what it is and how the process can increase revenue for the organization. That analysis will include net operating income, service and parts department contribution margin, customer labor sales, and parts sales. Those data will be analyzed using the data available for dealers that are currently using standard job pricing.

Achieving the goals on the scorecard in table 3.1 will help a dealership reach a higher performance level with a better chance of sustainability for the foreseeable future.

Cazenovia Equipment Company in Cazenovia, New York added three new locations in February of 2009 when it acquired the assets of Widrick Implements, Inc., increasing their total number of locations to eleven throughout western New York. James Frazee, dealer principal, says that “we have to grow if we're going to be a sustainable dealer in the future” (Tampone, 2009). Long term sustainability in a business is not something new, especially in the world of equipment dealers or for any dealer owner who survived the farm crisis in the early 1980s. If a dealer group has too many locations, they typically have higher expenses and earn less on each sale as result. The dealers that are growing and expanding in their market are also evaluating their location strategy, but some are looking at the inefficiencies created by operating several locations. Most are able to serve their customers more efficiently with fewer locations. When they reduce the number of locations, their expense to sale ratio will decrease as well as their fixed expenses. When fixed expenses decrease, absorption increases which results in an increasing Net Operating Return on Assets (NORA).

### **3.1 Dealer Scorecard Metrics**

The metrics on the scorecard shown in figure 3.1 are divided into three categories: market, customer and operational. The market category includes dealer market share values, total net sales, agricultural retail sales, turf and utility sales, and net parts sold. The customer category shows the overall customer experience rating of the dealer. The operational category includes the following: Net Operating Return on Assets (NORA), Net Operating Return on Sales (NOROS), total asset turnover, used equipment turns, total absorption percentage and expense to sales ratio.

John Deere evaluates dealers on how well they perform in their trade area, with market share being the primary measure. Market share is the proportion of total sales of a category of product or service that is attributable to the dealer as reported to the Association of Equipment Manufacturers, (AEM). Market share can range from zero to one. A zero would indicate no sales while a market share of one would that the dealer had the whole market. Total net sales include new equipment sales, used equipment sales, parts sales and customer labor sales. Agricultural retail sales are all new agricultural products the dealer sells to end users and includes products not reported to AEM. Reported products are all tractors, combines, header equipment, forage harvesters, sprayers, windrowers, and hay tools. Turf and utility retail sales includes all sales of new turf and utility products such as riding lawn equipment, commercial mowing equipment and Gator™ Utility vehicles. Net parts purchased are simply the value of parts the dealer purchases from John Deere.

The organizations overall Customer Experience score, or CE score, is determined by a series of three questions as shown in figure 3.1. The dealer experience survey is mailed to all customers at each dealer location.

**Figure 3.1 Customer Experience Questions**

1. DEALER OVERALL	Poor	Fair	Good	Very Good	Excellent
a. My overall <u>experience</u> with this dealer	<input type="radio"/>				
b. This dealer treats me as a <u>valuable</u> customer	<input type="radio"/>				
c. How likely are you to <u>recommend</u> this dealer to others	<input type="radio"/>				

Source: John Deere Dealer Experience Survey

The dealership’s CE score is the average of the responses from the three questions: customer’s overall experience, felt valued, and would recommend to others. The experience survey instrument is mailed each month after the customer has purchased a new or used machine or purchased more than \$400 in parts or service labor repairs. John Deere mails 21 surveys to customers of single store dealerships and 13 surveys to customers at each location of a multi-location dealership each month.

The operational metrics on the scorecard include financial ratios that indicate overall dealership performance. NORA (net operating income divided by total assets) is a measure of earnings generated from all assets invested in the business before interest and taxes. Dealerships with higher net operating incomes and lower assets will have a higher NORA. Lower assets will help dealers reduce their expenses as well. Dealerships with a higher

NORA percentage will be able to earn higher margins on equipment sales which in turn will increase profits. From an operational standpoint, it is very important for large dealers to achieve a 7.5-percent NORA to be considered a high performing dealer by John Deere. The long term objective for NORA is 15-percent or higher.

The total absorption factor measures the extent to which the dealership's fixed and interest expenses are covered by the parts or service department's contribution margin. Contribution margin dollars are used to pay fixed expenses, interest expenses and taxes. Although interest expense is beyond the control of the parts manager, it must be considered when evaluating the financial health of the entire dealership. The parts manager is responsible for achieving Absorption Factor performance at or above guideline levels. The long term trend should be above or moving up toward the guideline of 100-percent. There are actually two different absorption factors, one for the parts department and one for the service department. The parts department should be able to achieve an absorption factor of 45-percent and the service department should be able to achieve 55-percent. Total absorption is the parts department contribution margin plus the service department contribution margin divided by dealership's total fixed expenses and interest. The absorption factor is a measure that reflects the parts and service department's ability to support the dealership. The total Parts and Service Absorption Factor guideline is 100% or more. The higher the total absorption factor becomes, the more flexibility the complete goods department or sales department is allowed to adjust margins to meet market demand- -lower margins to increase sales. The ability of the dealership to survive cyclical, low

levels of complete goods sales is dependent upon the parts and service department delivering 100% or more total absorption factor. A dealer's NORA is highly correlated to its absorption factor, so if the organization is able to increase absorption, NORA will increase as well.

### **3.2 Standard Job Pricing**

Standard job pricing (SJP) is a method where the dealer quotes a standard price for any given repair and set-up jobs for internal and external customers. Examples of internal jobs would be reconditioning a used trade-in unit or performing the pre-delivery set-up on a new machine or implement. Examples of external jobs would be jobs from customers who have their machines serviced or repaired by the dealership. The repair jobs will have the same cost at all locations throughout the organization. The benefits of standard job pricing for the sales department are very important because the set-up cost will be the same each time a particular unit is set-up by the organization. Standard job pricing is a complicated process and takes the commitment of the entire upper management team to implement. Quoting jobs SJP will allow the sales department to know the exact cost of setting up equipment which will aid in pricing new equipment to customers and the potential to earn higher margins on those units. External customers will also benefit from standard job pricing by receiving a price quote on most repair work prior to the repairs being performed on equipment. If the technician working on a particular piece of equipment discovers additional needed work, the service manager should contact the customer to get approval for performing those repairs with a revised quote. Standard job pricing offers the

technician an incentive to achieve a billing gain for the day. If the job has a quote of eight hours, but the technician completes the job in six, there is a billing gain of two hours that can be used to start another repair.

The data used in the analysis of standard job pricing includes financial data sent to John Deere by all dealer organizations and those dealers using the Legacy business system who report their data on standard job pricing. The data on standard job pricing is compared to same all dealers. The study will compare the averages of all dealers against those that quote only 10-percent of jobs as well as 25-percent and 50-percent of jobs with a valid job code. A work order with a valid job code is indicated by recording a 'Q' on one of the screens in the Legacy business system. The Legacy Business system is the computer systems used in the dealership. As a result of the 'Q' indicator, dealers are able to track their percentage of quoted repair orders. Quoting jobs requires the use of a list or file of repair job times that can be consistently applied to jobs that are alike. That list has been developed by John Deere dealer service managers from across the country. Work is ongoing to include SJP in other business systems such as the replacement to Legacy, know as EQUIP™.

### **3.3 Location Strategy**

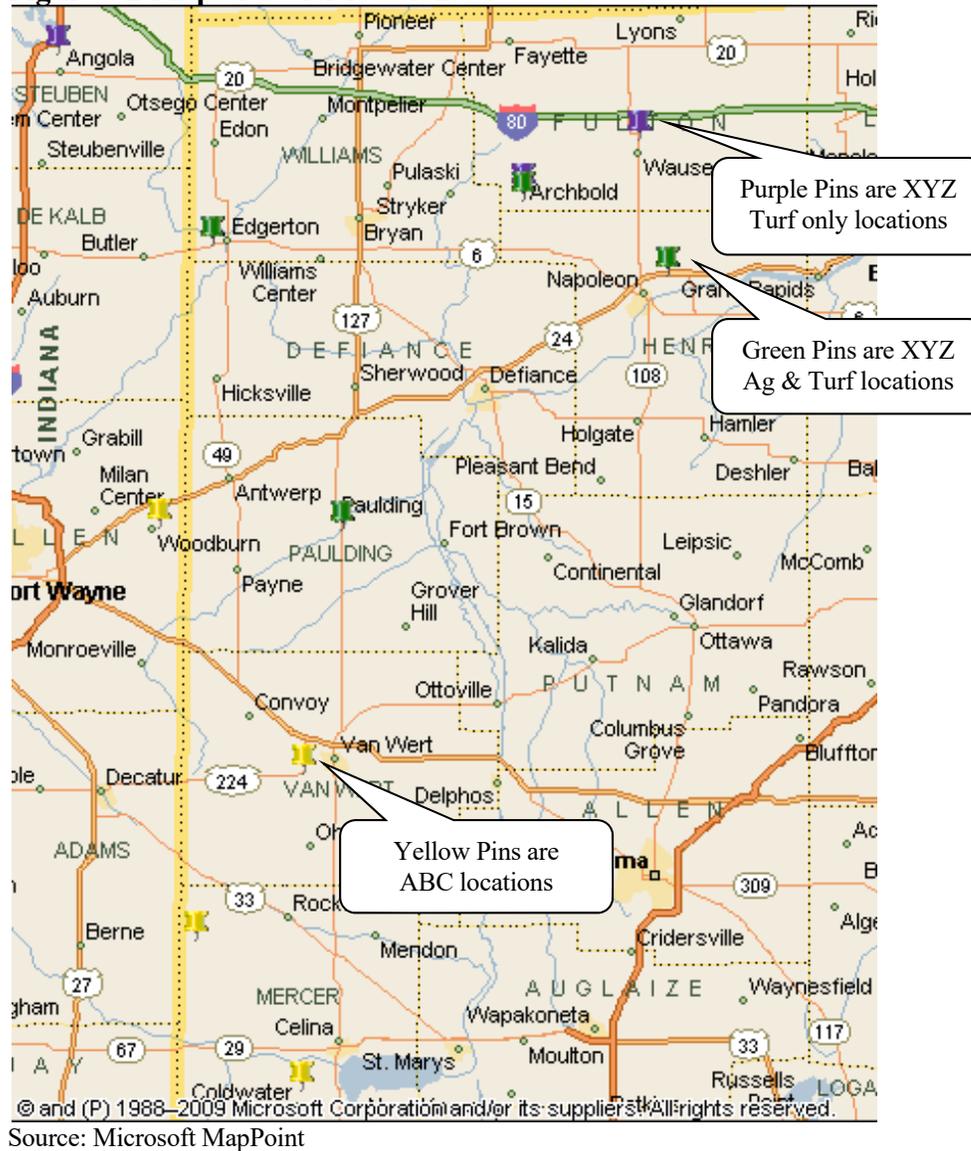
When organizations begin the process of reducing expenses, they should try to reduce their current level of fixed expenses and/or assets. In the case of a multi-location business, this involves analyzing the current locations and making decisions on a location strategy.

If a dealership is able to achieve the same level of customer satisfaction and customer support with fewer locations, it should take advantage of that.

The analyzing location strategy will require the insight of the John Deere field management as well as management in both dealerships. The industry potential and total sales at each location will be analyzed to determine the most profitable locations in the organization as well as to develop drive-time maps to determine the most effective location to replace existing locations. The data will be compiled using five and ten year averages of industry sales potential to aid in determining the sustainability of a particular location. This data will be tabulated by location and totaled for the new organization using the current location strategy and a proposed location strategy.

The two dealerships, together, now have 11 locations in northwest Ohio and northeast Indiana (see figure 3.2) with Areas of Responsibility that covers fifteen counties in Ohio and Indiana plus three counties in southern Michigan. XYZ Dealer has locations in Archbold: the parent location for agricultural equipment and a satellite location for turf sales and rental equipment.

**Figure 3.2 Map of dealer locations**



The home location for the ABC Company is in Van Wert, Ohio. The XYZ Dealer organization has seven locations and ABC Company, four. The locations are marked with pins on the map (figure 3.2). The purple pins locate the turf locations for XYZ Dealer, the green pins locate the agricultural locations for XYZ Dealer, and the yellow pins locate the agricultural locations for ABC Company.

## CHAPTER IV: METHODOLOGY

The methods used in this analysis will include a comparison study of all dealers across the United States utilizing standard job pricing data collected by the dealer development group in Lenexa, Kansas. The analysis will compare dealer financials, shown in table 4.1, against those that are utilizing standard job pricing with 10-percent, 25-percent and 50-percent quoted jobs with a valid job code. The valid job code is indicated on the business system by the service manager when the repair order is opened or started.

**Table 4.1 Standard Job Pricing Analysis**

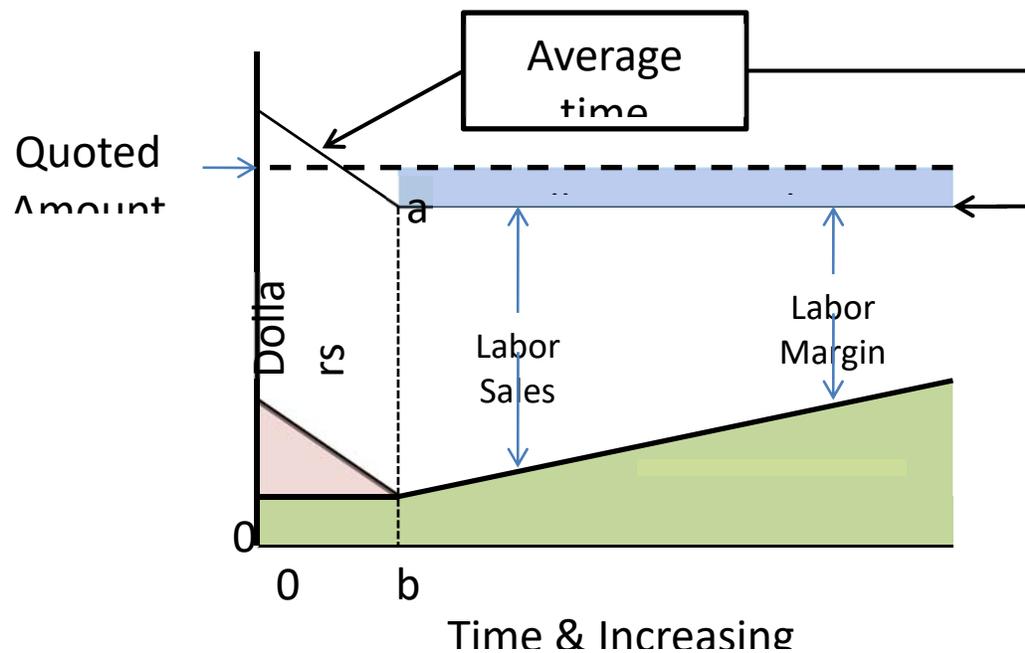
Description	Definition
Market Share	Compares dealer with other manufactures in their particular trade area
Total Sales	Total sales of the organization
Net Operating Income	Income before interest expenses and taxes
NORA	Net operating return on assets
Pts & Svc Contribution Margin	Aftermarket department dollars used to pay fixed expense, interest and taxes
Customer Labor Sales	Amount of service repair work generated by the dealership
Parts Sales	Amount of parts sold by the dealership
Absorption	Percentage of expenses covered by parts and service department
Customer Experience	Score that gauges customer satisfaction with dealership

Source: John Deere dealer development

The data in table 4.1 will compare the average of each of the categories shown with all dealers across the United States to those that utilize standard job pricing. Standard job pricing benefits the organization with more satisfied customers, and employees as well as increased profits. This study will compare the extent of the increased profits on customer labor sales, absorption and total sales. The basis of SJP is that it gives the technician a specific time to perform the job and the customer a price for the repair job. Ultimately this

process should improve the customer's experience since there are no hidden costs to the repair bill. The technician benefits more in the form of increased wages if they complete the repair in less time than the job allows. However, this system is not a flat-rate pricing method used in automobile repair centers. The technician is still paid a base hourly rate for each hour on the clock as opposed to the standard job time. Technicians are given the incentive to work smarter and faster to earn additional income in a given period determined by the organization, usually paid on a quarterly basis. Figure 4.1 shows that the quoted job price stays the same, but as technicians become more proficient, the time to complete the job decreases and the billing gain is passed on in the form of an incentive to work harder and more efficiently. If technicians work too quickly and the equipment has to be reworked, the technician loses the billing gain for that repair, this ensures a quality repair.

**Figure 4.1 Graphical Representation of Standard Job Pricing**



Source: Lenexa Dealer Development

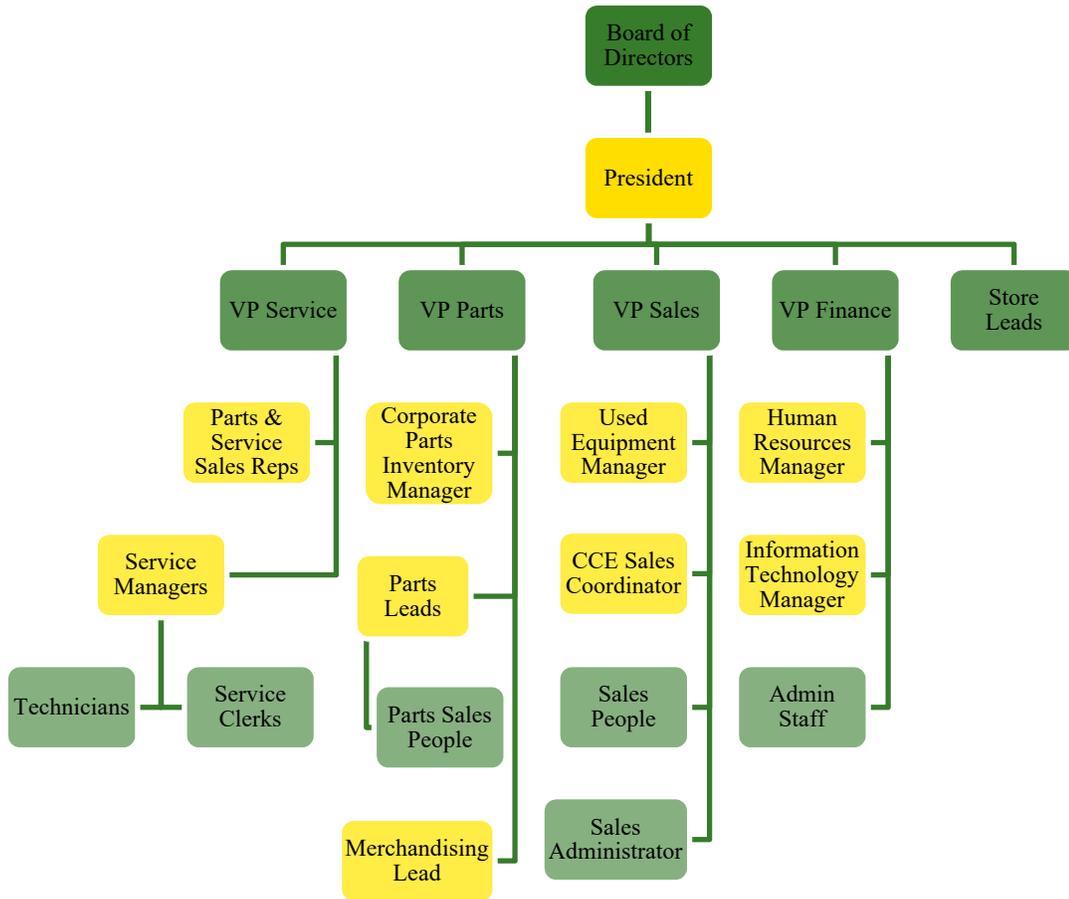
This study will also analyze sales data to determine a location rationalization strategy to leverage the current employee base and cover the trade area more effectively. This part of the analysis will include mapping tools used John Deere's sales management team that includes sales per location as well as drive times between the locations. Aiding in this location strategy will be statistics from the USDA Census of Agriculture outlining the changes within the two dealerships' trade area with respect to farm numbers, the number farming more than 1,000 acres from 1987 to 2007. The analysis will also explore the industry potential for each location within the combined organization to ensure adequate potential to support a location and ensure sustainability.

It is generally accepted by John Deere sales management that a dealer in a mostly commercial or large agricultural area with \$1 million in retail sales will earn approximately \$2.5 million in total sales (dealer development). Retail sales are all sales that count towards a dealer's industry market share as reported to the Association of Equipment Manufacturers' (AEM) and includes all tractors, combines and header equipment, hay tools, self-propelled forage harvesters and self-propelled sprayers sold. The remaining units that make up the total net sales include tillage and seeding equipment, turf and utility retail sales, used equipment, as well as parts sales, whole goods bundles and attachments and are not part of that number called retail sales. With retail sales in the \$5 to \$6-million range and 50-percent market share, a dealer in a commercial agricultural area will most likely sell and service approximately 20 to 30 new units annually. That is assuming that a total of 50 to 60 units are sold in the trade area. Larger, multi-unit dealerships will use location rationalization to increase asset utilization while maintaining certain sales

objectives. That ensures each location will be able to earn a sustainable profit for the dealership. The total sales potential for each agricultural location between the two dealerships will be analyzed using a five year average sales potential. From that data, recommendations will be made to the organizations in regards to their current locations, regardless of whether or not the merger takes place.

Additionally, a management structure will be developed utilizing the functional structure for management. A basic example of this is shown in figure 4.2. Recommendations will be made on staffing and filling each role in this structure for the new organization, with input from the dealer development manager serving the two dealerships.

**Figure 4.2 Organizational Chart**



Source: Lenexa Dealer Development

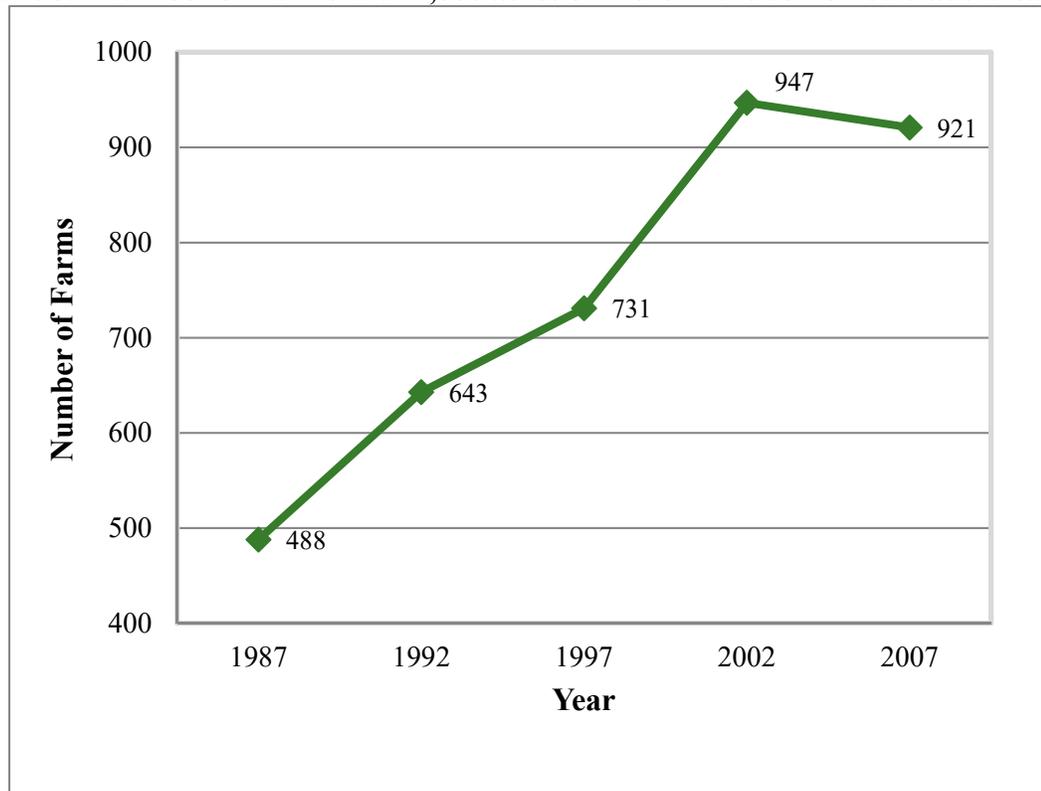
The scorecards for the two dealerships will be combined and compared to other dealers of the same size and scale. The scorecard analysis will show that larger dealers perform better on scorecard metrics. This should encourage the dealers to strive towards merging into a dealership of equals. The analysis completed in this study will be used to make recommendations on the organizational structure used to guide the dealership towards a successful growth strategy. The various customer segments that John Deere targets with agricultural and turf products will show how the dealer can begin to create value with a

larger organization to better serve all customer segments and help increase customer loyalty.

## CHAPTER V: DATA AND RESULTS

In the United States the number of large farms is growing. According to the USDA Census of Agriculture in the eighteen counties serviced by the Archbold and Van Wert organizations, the number of farms with 1,000 acres or more has increased from 488 farms in 1987 to 921 in 2007 as shown in figure 5.1. The growth in number of large farms is taking place nationally, as well. In 1974 there were 155,000 US farms with 1,000 acres or more. In 2007 that number had grown to 173,000 farms. The rise in farm size is driving the need for larger, more specialized dealers.

**Figure 5.1 Number of Farms with 1,000 acres or more in the combined trade area**



Source: USDA Census of Agriculture

## 5.1 Standard Job Pricing Business Case

Much research has gone into how to implement standard job pricing at John Deere dealer organizations across the United States and Canada. There are several reasons why dealers are reluctant to implement SJP, but the biggest reason is the commitment needed to develop the job time database and the additional employee necessary to manage the database. Monitoring the database in some cases may require constant attention by a full time person committed to the success of the process. However, current research by the Lenexa dealer development group shows that implementing SJP does have very positive financial implications to the organization's bottom line. On average, a high-performing dealer using SJP versus a dealer that is not using SJP has an 11-percent higher charge-out efficiency, a 12-percent higher revenue recovery factor, and almost half as much service labor allowance. Service labor allowance is time that is written off by the service manager for perceived inefficiencies before the work order is closed. Charge-out efficiency is the technician revenue hours +/- billing gains or losses divided by technician revenue hours. The revenue recovery factor includes the total revenue hours divided by total technician hours worked. Stated another way, it is the percentage of technician's hours that are on revenue creating jobs. The average reduction in service labor allowance was \$48,200 by dealers that are quoting 50-percent or more jobs. This study compares all-dealer-averages for these categories with dealers reporting greater than 49% use of quoted work orders with valid codes. A work order with a valid job code is indicated by recording a 'Q' on one of the screens in the Legacy business system. As a result of the 'Q' indicator, dealers are able to track their percentage of quoted repair orders. The service labor allowance figure is

from a 2008 study by the Lenexa dealer development group. There are more reasons to implement standard job pricing as shown in table 5.1. It shows the averages for all dealers and those that are quoting 10%, 25% and 50% with a valid job code. The data in the table includes straight averages and does not account for the organizations' size or number of locations. Table 5.1 should encourage all dealers to investigate standard job pricing. The data in this analysis is from January 2010, and the financial numbers would be based on the records from the end of December 2009.

**Table 5.1 Standard Job Pricing Comparison**

Description	All Dealers	10% QVC	25% QVC	50% QVC
Number of Dealers	506	66	46	22
Market Share	35.6%	37.4%	37.6%	38.8%
Total Sales	Low	Medium	Large	Extra Large
NOI	\$1,585,789	\$2,367,923	\$2,394,741	\$2,480,094
NORA	8.1%	8.3%	8.4%	8.8%
Pts & Svc Contribution Margin	\$2,981,140	\$4,454,485	\$4,590,269	\$4,992,935
Customer Labor Sales	\$1,313,628	\$1,963,437	\$2,026,499	\$2,244,654
Parts Sales	\$5,601,290	\$8,215,487	\$8,474,048	\$9,244,838
Absorption	82.6%	82.2%	81.5%	83.7%
Customer Experience Rating	89.04%	88.07%	87.97%	88.01%

Source: Multi-store analysis data taken in January 2010 by Lenexa Dealer Development.

There are increases in almost every category with customer experience rating being the only category that decreases. This rating is subject to customers filling out surveys and returning them to John Deere. However, this analysis in table 5.1 shows that dealers that implement standard job pricing should implement process improvements that increase their customer experience rating. The customer experience rating is a direct reflection of how the customer perceives the dealership and as a result, the organization needs to be aware of the potential decline in this area. The data in table 5.1 was collected from dealers using

only the Legacy business system that report standard job pricing to John Deere. A more in-depth comparison between all dealers and those quoting over 50-percent of jobs is shown in table 5.2. The 22 dealer organizations in table 5.1 and 5.2 that are quoting at 50-percent or greater SJP make up 56 locations. Ten of the 22 are single store locations, which leave 46 locations between the remaining 12 dealers or owner groups. The data above shows that implementing standard job pricing will pay off if the organization's management makes the commitment of full implementation with an additional staff person to develop and monitor the standard jobs database.

**Table 5.2 Detailed Data Comparison**

Description	All Dealers	50% QVC	Change
Number of Dealers	506	22	-
Market Share	35.6%	38.8%	3.2%
Total Sales	Average	Above Average	\$22,987,299
NOI	\$1,585,789	\$2,480,094	\$894,306
NORA	10.1%	11.8%	1.7%
Pts & Svc Contribution Margin	\$2,981,140	\$4,992,935	\$2,011,795
Customer Labor Sales	\$1,313,628	\$2,244,654	\$931,025
Parts Sales	\$5,601,290	\$9,244,838	\$3,643,548
Absorption	82.6%	83.7%	1.1%
Customer Experience Rating	89.04%	88.01%	-1.03%

Source: Multi-store analysis data taken in January 2010 by Lenexa Dealer Development.

The increase in customer labor sales should be incentive enough to investigate making this change in how organizations do business with customers. This does not mean that by implementing SJP dealers will automatically realize an increase in customer labor sales; however that potential is a real. The data in table 5.2 begins to create a business case to add a non-revenue employee to manage the jobs database for the organization. Dealers currently have access to over 100,000 job times for routine maintenance jobs in the

Marketing Service Times website, this database helps dealers begin with quoting jobs. The point person would be able to use these jobs times to begin implementation and then monitor the overall performance of the technicians and make the necessary adjustments to the job times by either adjusting the time up or down. A good recommendation to any organization is to enroll and attend the Customer Value Service Pricing Class as a team with upper management to learn the best approach to implement standard job pricing. Upon completion it would be the recommendation of John Deere field management to work with the dealer development subject matter experts at the Lenexa office on standard job pricing to assist in building the timeline and for implementing this change to the organization.

## **5.2 Location Strategy Analysis**

The two dealerships in Archbold and Van Wert serve eighteen counties in Northwest Ohio, Northeast Indiana and Southeastern Michigan. The combined area of responsibility is shown in table 5.3. These two dealers compete with each other in De Kalb County, Indiana and Paulding County, Ohio. This competition drives down profit margins on equipment as customers will shop between the two dealers in search of a better price. The table also shows the percentage of the county the dealer is responsible for serving in the following categories: commercial or large agriculture, small agriculture and tractors under 90-horsepower. Large agriculture products are products above 140-horsepower including tractors, combines self-propelled sprayers, self-propelled forage harvesters, self-propelled windrowers and header equipment. Small agriculture products include tractors and hay tools and the remaining category includes all reported tractors under 90-horsepower.

**Table 5.3 Combined Area of Responsibility**

State	County	Commercial Agriculture Products	Small Agriculture Products	Tractors < 90HP
IN	Adams	Shared	Shared	Shared
IN	Allen	Shared	Shared	Shared
IN	De Kalb	All	All	Shared
IN	Jay	Shared	Shared	Shared
IN	Steuben	Shared	Shared	Shared
MI	Branch			Shared
MI	Hillsdale	Shared	Shared	Shared
MI	Lenawee	Shared	Shared	Shared
OH	Allen	Shared	Shared	Shared
OH	Auglaize	Shared	Shared	Shared
OH	Darke	Shared	Shared	Shared
OH	Defiance	All	All	All
OH	Fulton	Shared	Shared	Shared
OH	Henry	Shared	Shared	Shared
OH	Mercer	All	All	All
OH	Paulding	All	All	All
OH	Van Wert	All	All	All
OH	Williams	All	All	All

Source: North American Market Share website

The dealer may or may not be responsible for 100-percent of a particular county based on proximity of neighboring John Deere dealers to those same counties. The specific AORs are maintained by the manufacturer as outlined in the dealer contract. The dealer market share is measured within the dealer’s AOR, and industry sales are prorated by AOR resulting in portions of units in each dealer’s total (Dealer Development). A visual explanation of industry prorating is shown in figure 5.2.

**Figure 5.2 Industry Prorating**



Source: Lenexa Dealer Development

Dealer market share is measured using US Industry dollar averages by machine size for the most recent year available. The two dealerships, XYZ and ABC have industry potentials of \$9.45-million and \$11.3-million, respectively, and a combined total of \$20.8-million with their current locations left in place. The industry potential for each location, taken from the North American Market Share website from John Deere online, through the end of January 2010, is shown in table 5.4. The industry potential represents the total machine potential for the dealer's trade area available to all manufacturers. Three locations are below \$4-million in industry potential sales, which raises a concern about the long term sustainability of those locations. The Van Wert location, with a potential of only \$1.4

million, is of particular concern because the facility was new in the spring of 2007. As a newer facility, it will have high investment cost, which translates to high annual fixed costs. The merged dealership will need to analyze the current location strategy to determine how to best increase the industry potential at this location or consider a relocation strategy to increase industry potential on a fairly new investment.

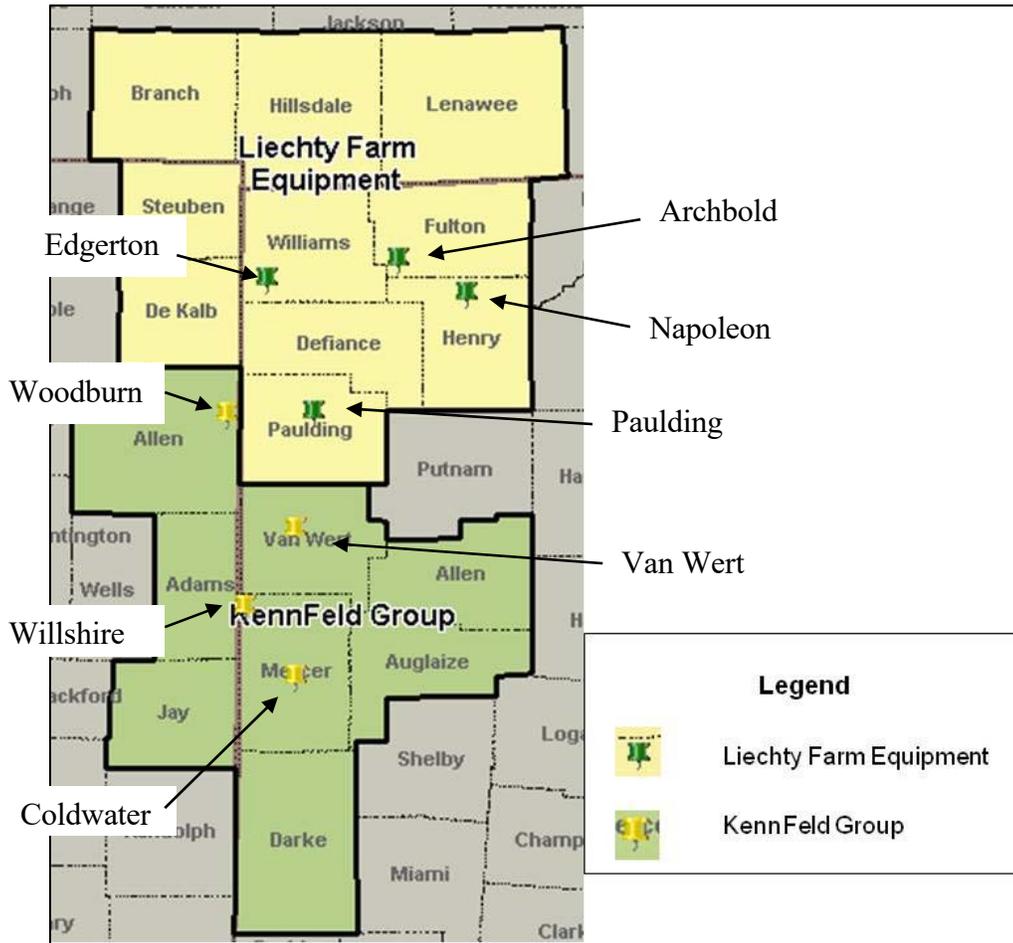
**Table 5.4 Current Industry Potential**

<b>Dealer Town</b>	<b>Industry Potential 5 year average in millions</b>	<b>Industry Potential 10 year average in millions</b>
Archbold	\$2.61	\$1.99
Edgerton	\$2.79	\$2.25
Napoleon	\$2.15	\$2.05
Paulding	\$2.64	\$1.75
Coldwater	\$5.25	\$4.72
Van Wert	\$2.15	\$1.89
Willshire	\$1.01	\$0.89
Woodburn	\$2.15	\$1.92
<b>Total</b>	<b>\$20.75-million</b>	<b>\$17.46-million</b>

Source: North American Market Share website

The locations are shown in figure 5.3, with pins for each current location. This map shows only the agricultural locations for the two organizations. The yellow and green shaded areas represent each organization's current AOR at the end of January 2010. The merged dealership's AOR would change slightly if management decided to reduce the number of locations. However, that would not affect its market share, adversely.

**Figure 5.3 AOR County and Location Map**

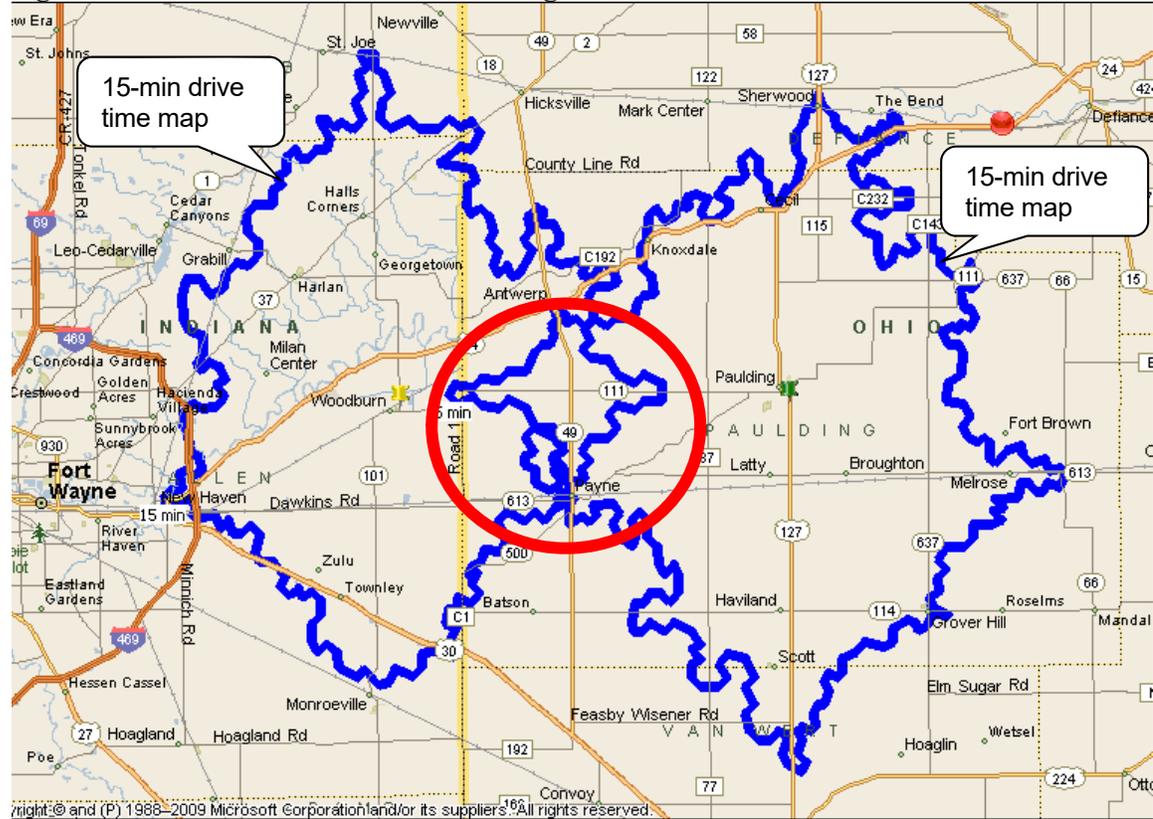


Source: Microsoft Map Point 2010

The location in Woodburn, IN, located in the northeast corner of Allen County is approximately 14 miles from the Paulding, OH location as shown on the map in figure 5.3. A fifteen minute drive time map shown in figure 5.4 was generated using Microsoft MapPoint 2010. A comprehensive location strategy should be part of the merger planning process. Both management teams need to look at their industry potentials and evaluate a long term strategy to reduce expenses. This should be a long range plan with goals set at

three, five and ten years. Strategic planning must be an important part in the merger discussions to reach an agreement to create a new organization.

**Figure 5.4 Drive Time zones for Paulding and Woodburn**

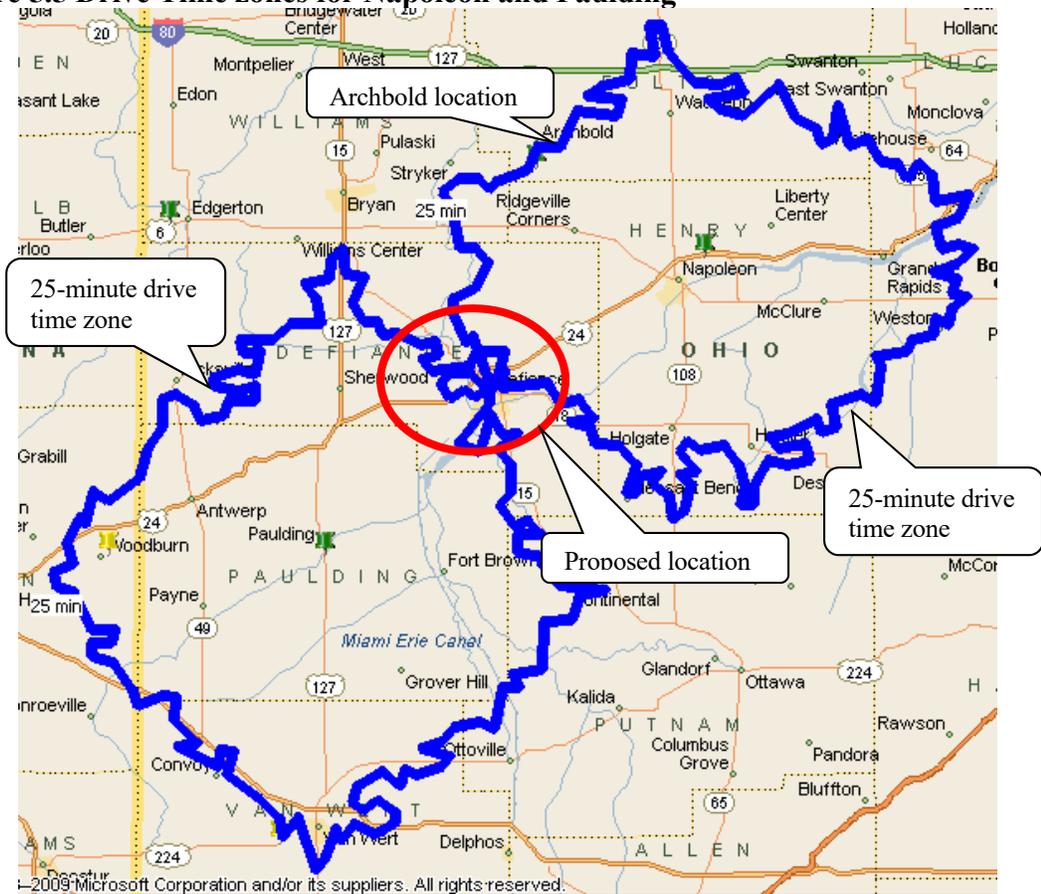


Source: Microsoft Map Point 2010

The map in figure 5.4 shows the overlap between the two locations as indicated by the red circle. It illustrates the close proximity of these two locations for a fifteen minute drive time zone. A twenty minute drive time zone around Woodburn places the zone on the west edge of Paulding. The map in figure 5.5 with 25-minute drive time zones shows significant overlap in Defiance and with the current location in Archbold. A proposal would be to combine the Napoleon and Paulding locations into one in the Defiance, OH area. It could be a new structure or taking over an existing structure, which would save on capital

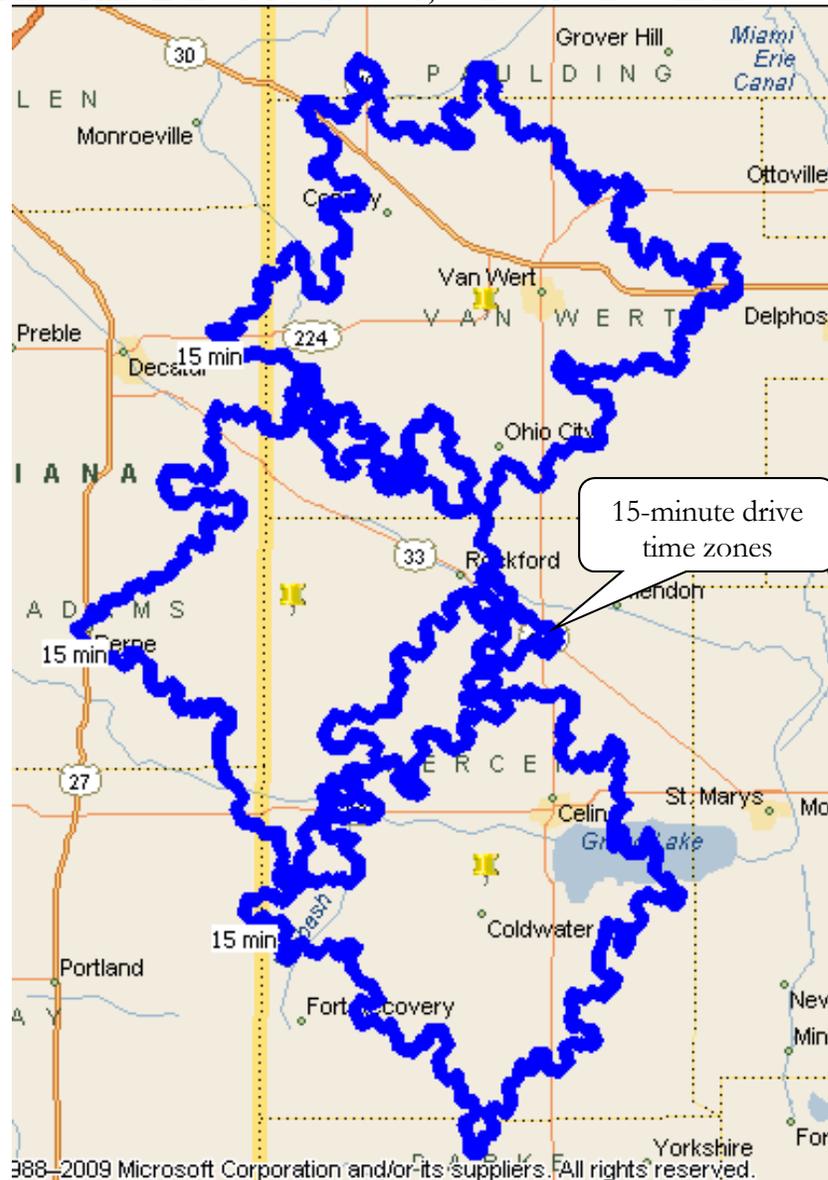
investment given the current market for real-estate in the area. The red circle shows the overlap between these two locations. US-24 highway is now complete and open to traffic from the Indiana boarder to east of the Napoleon store (not shown as such on the map). With this section of highway complete, the drive time is now under 25-minutes from Napoleon to west of Defiance. When construction is completed US-24 will be a four-lane divided highway from Fort Wayne, IN, to Toledo, OH.

**Figure 5.5 Drive Time zones for Napoleon and Paulding**



Source: Microsoft Map Point 2010

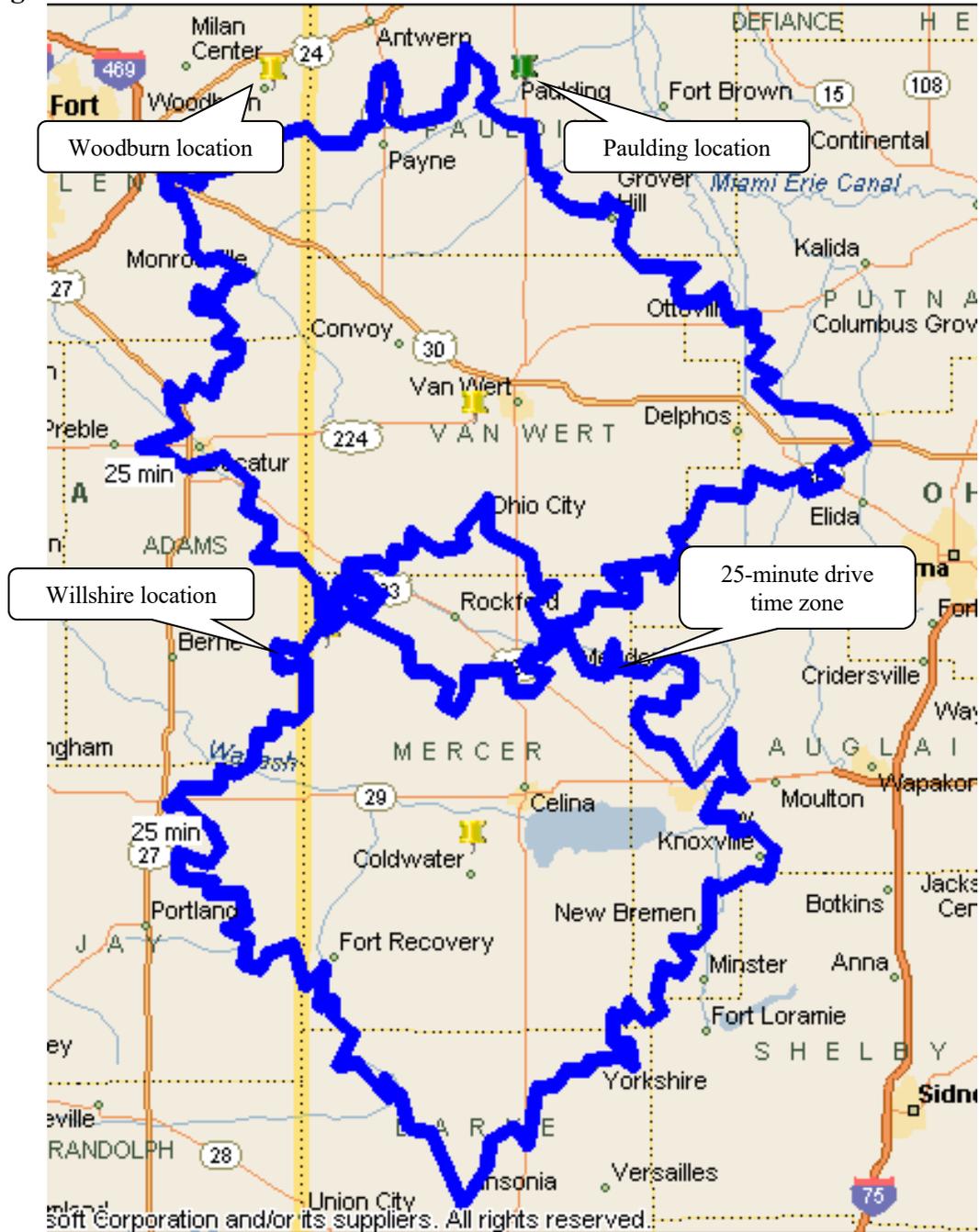
**Figure 5.6 Drive Time Zones for Coldwater, Van Wert and Willshire**



The map in figure 5.6 shows 15-minute drive time zones for Coldwater, Van Wert and Willshire. This map begins to show overlap with a 15-minute zone. The proposal will include closing the facility at Willshire and servicing that AOR with the current locations in Coldwater and Van Wert as well as a new heavy duty service truck. Figure 5.7 shows that

this AOR can be supported with the current locations and a service truck stationed in the Willshire area at the technicians house.

**Figure 5.7 Drive Time Zone for Coldwater and Van Wert**



Source: Microsoft Map Point 2010

This map in figure 5.7 also shows the current locations in Paulding and Woodburn and the proximity to the Van Wert location. The distance from Willshire to Coldwater is fourteen miles and from Willshire to Van Wert is fifteen miles. At this distance, customers will travel to either store and if necessary hauling from Willshire will not be a major burden should it be necessary to make repairs on machinery. The building in Willshire is a steel building that could be sold to a local farmer and used to store machinery.

Industry potential analysis was also completed to support a new location strategy and is shown in table 5.5. This data was gathered from the North American Market Share website from John Deere online.

**Table 5.5 Proposed Locations Potential**

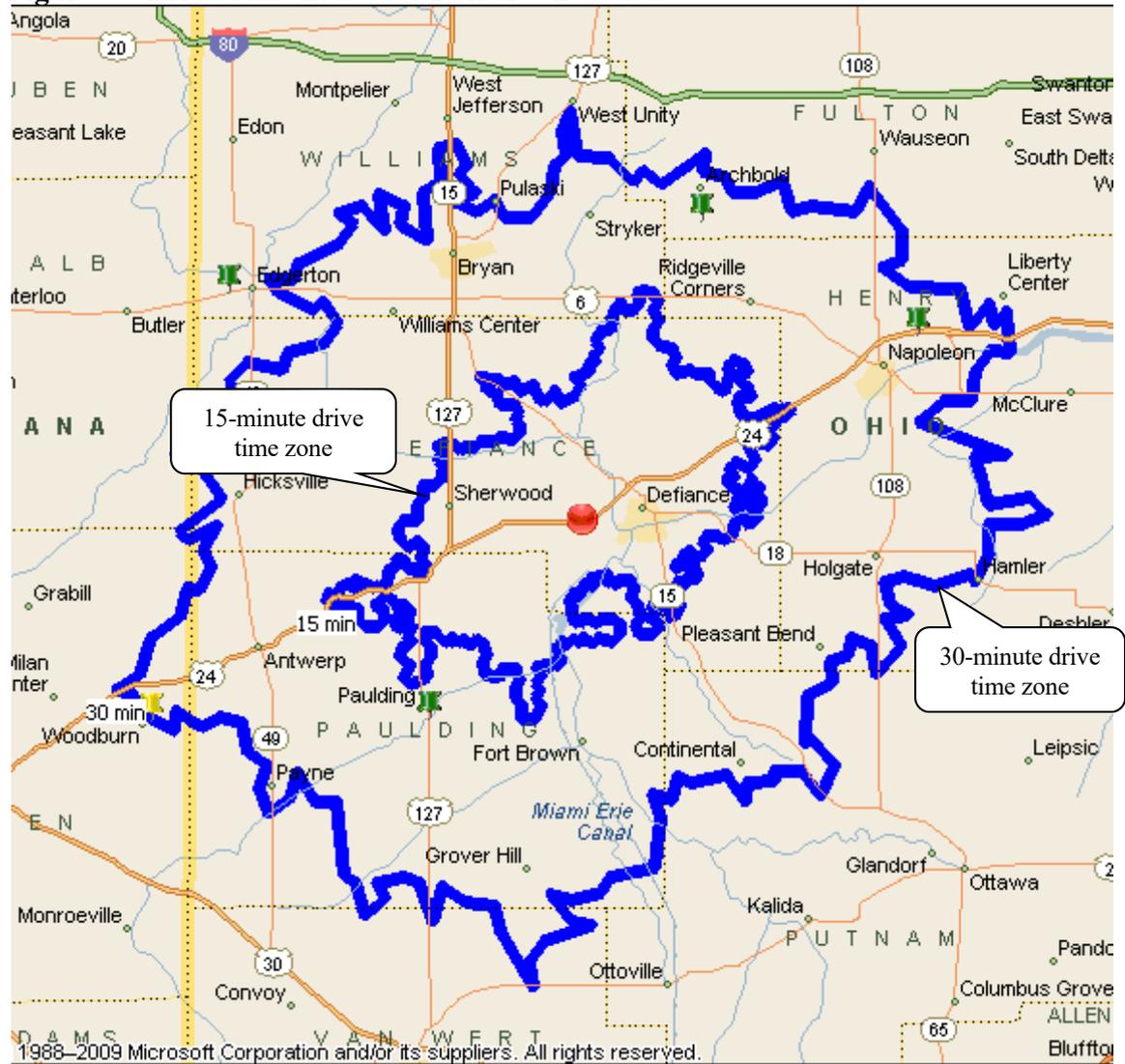
<b>Dealer Town</b>	<b>Industry Potential 5 year average in millions</b>	<b>Industry Potential 10 year average in millions</b>
Archbold	\$ 3.176	\$ 3.964
Edgerton	\$ 3.741	\$ 2.778
Defiance	\$ 2.283	\$ 2.523
Coldwater	\$ 6.878	\$ 6.149
Van Wert	\$ 4.834	\$ 4.501
Woodburn	\$ 2.859	\$ 2.265
<b>Total</b>	<b>\$ 23.77</b>	<b>\$ 22.18</b>

Source: North American Market Share website

The total industry potential for this proposal is \$21.77-million using the 5-year average industry potential, a decrease of \$2.00-million due to relocating the Napoleon location. The total industry potential is \$22.18-million when considering a 10-year average. The

proposed location in Defiance changes the responsible AOR percentage for Henry County and thus decreases the responsible area for the organization. This should not have an adverse effect on sales or market share and has the potential to increase their market share if they sell the same amount of machinery with less AOR in that county. Combining the Napoleon and Paulding locations into a newer facility in Defiance will increase turf sales in that area and increase the industry potential for Archbold, Van Wert and Woodburn. Closing the Willshire location will also add industry potential to the Van Wert location bringing that location's industry potential to \$4.834-million.

**Figure 5.8 Drive Time Zones for Defiance Location**



The drive time zones shown in figure 5.8 show that the Paulding and Napoleon AOR can be supported with a new facility in Defiance, Ohio. The 30-minute zone includes the locations in Archbold, Napoleon, Paulding and Woodburn. The Edgerton facility would be slightly over a 30-minute drive to Defiance.

Figure 5.9, shows the proposed six agricultural locations that would make up the new organization. The new organization would be able to reduce their fixed expense by reducing the agricultural location count from eight to six. Liechty Farm Equipment currently operates three separate turf-only locations in Angola, Indiana, Archbold and Wauseon, OH. The Archbold location is north of the main store by a half-mile. This location should be consolidated into the main store in Archbold to reduce fixed expenses as well. All turf only locations operate rental centers for typical items such as tables, chairs, saws, skid steers, lawn aerators, etc. under the name of Brush Creek Sales and Rental and would require additional space at the main store. The writer recommends updating the facilities in Edgerton and Angola to increase space for the showroom, parts department, sales offices and service area. A more modern facility in Angola would better suit the summer vacationer traffic when they return to their lake homes around the area. The facility in Edgerton is old and outdated and very limited on space. Updating this facility would help increase customer loyalty as well as drive repeat business.

The new location strategy allows the new organization to create a new branding strategy as well as *Value Innovation*. The value innovation comes into play with larger and more capable service vehicles to fill any perceived gaps in serving customers. This is a step already in process with the scheduled closing of the Willshire, OH location. The Kenn-Feld Group has invested in a new service truck equipped with a large crane to accommodate larger growers in the area previously serviced by the Willshire location.



areas within this area where there has been a lack of rain to support average yields. A trade area this large in northwest Ohio would only be possible with a successful merger of these two organizations. The larger trade area would also allow the organization to move more used equipment around between locations as well as increase the customer base for the used market by creating a new organization.

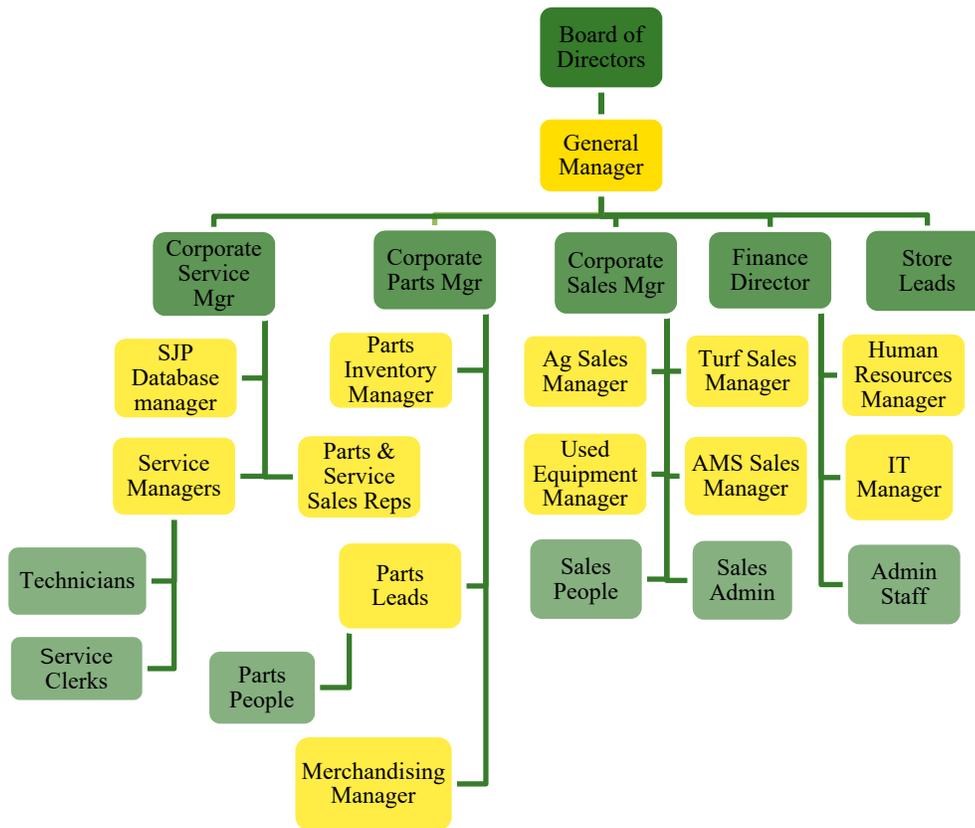
### **5.3 Organizational Structure**

Larger dealer organizations are more suited to offer and meet the specialized needs of larger producers. Those needs include a well staffed and trained precision farming department, referred to as Ag Management Solutions (AMS) by John Deere dealers, which assist growers with reducing input costs by using planters that are capable of variable rate seeding and fertilizer applications. Solutions like variable rate planting allow producers to specify how many seeds to plant in a particular zone using a prescription and GPS signal to determine the exact location in the field. Offering specialized contacts within the organization is the start of utilizing the strong employee skills and social capital available within the two organizations today. That would help to increase loyalty with the customer base. Both organizations employ two full-time AMS consultants to assist larger growers with precision farming solutions to increase yields and reduce input waste. Larger customers may need extended-hours support for parts and service repairs during planting and harvesting seasons, and a larger dealer would be able to offer this service from a centralized location. As farms become larger, farmers become more concerned with the total cost of ownership on their equipment. A larger dealer would be able to offer a routine maintenance program with a fixed cost of ownership. This offers the customer a higher

resale value from accurate maintenance records. Such services would be a way for a large dealership to differentiate itself from its competition, a lasting benefit to improving customer experience.

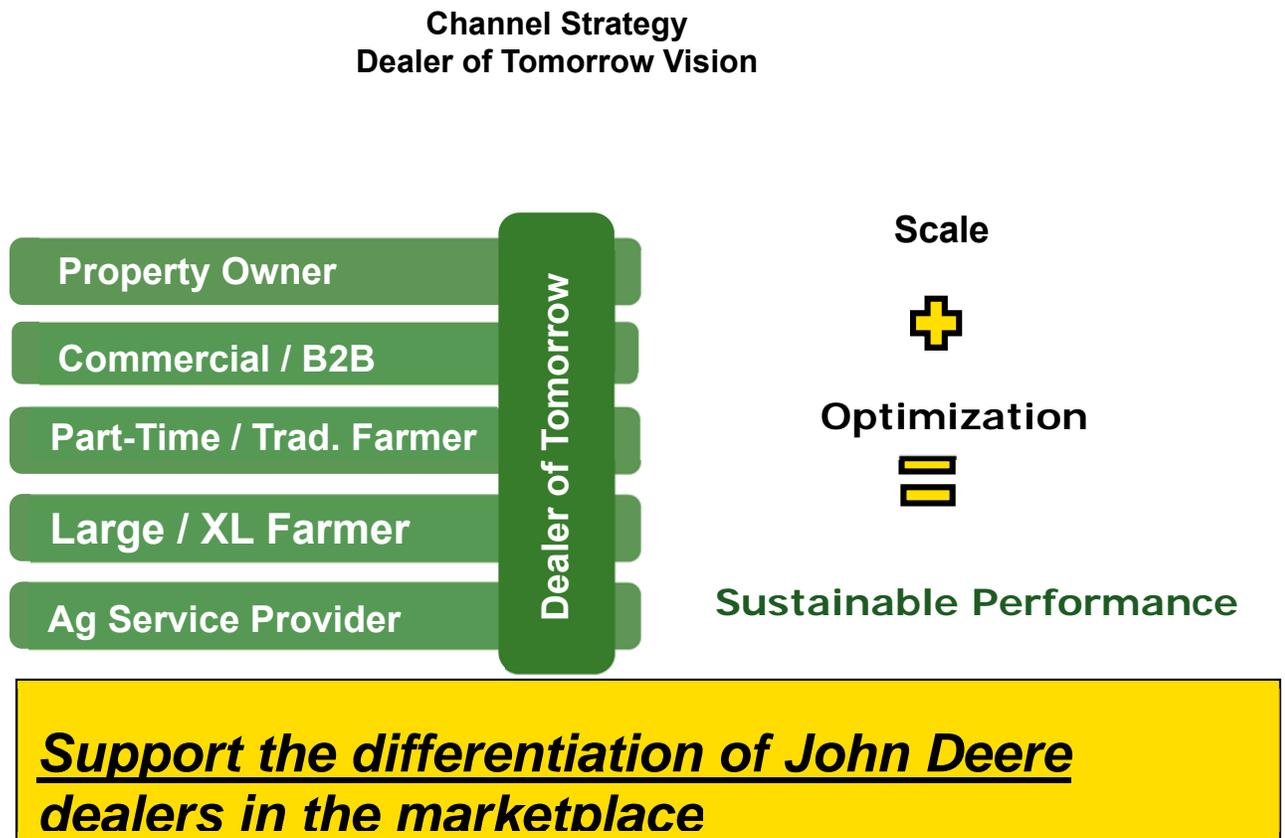
An essential part of an organization of this scale will be to have a well-defined organizational chart developed prior to actually merging the two organizations. This step must be implemented before any announcement is made to the employees within the new company. This is part of the post merger integration process that Marc Epstein discusses in his article on “*The Drivers of Success in Post-Merger Integration.*” The key part of the functional structure will be to include members from both organizations in key management positions. Both organizations have key people that would fill needed roles within each organization and complement the group as a whole. The available social capital within each organization will complement any gaps and create added value. This will provide the glue necessary to transition from individual organizations to a new company working together for common goals. The functional structure will look similar to figure 5.10. The management team may decide to have one person responsible for the parts and service departments and title that position “aftermarket manager” to reduce non-revenue staff positions. However, it is the opinion of the John Deere field management that dealers of this scale should strongly consider two positions as opposed to a single parts and service manager.

**Figure 5.10 Proposed Organization Structure**



Job descriptions will be written for each new position on this chart and job descriptions for current positions will be reviewed and revised to ensure they fit the new functional structure. Placing members from both organizations in key positions on the new organizational structure will help create the sense among all employees that this is a merger of equals. That should dramatically improve integration efforts and help the new company to continue serving its customers, well. A functional structure such as this allows the sales team to have a more focused approach and reach out to all segments that John Deere targets. Figure 5.11 illustrates the different customer segments that John Deere targets.

Figure 5.11 Channel Strategy



Source: John Deere Dealer Development

The first two segments are the property owner and commercial or business-to-business segments that mainly purchase lawn mowing and landscaping equipment. The property owner segment continues to grow as residents leave cities for more suburban lifestyles. Business-to-business organizations depend on their equipment to earn revenue, directly, and a larger dealer organization will be better equipped to offer loaner units to avoid downtime with a breakdown. The middle segment includes part-time farmers who, generally, are employed off of the farm. The off-farm income may be the most importance source of income and the farming operation may be more of a hobby. The slightly larger farms and some family farms make up the rest of the segment of small agricultural

customers. The last two segments are large family farms and non-family corporate farms and farm service providers such as chemical applicator. The functional structure allows the dealers to specialize in these areas to target customers' specific needs. That helps the dealer to establish relationships with these individuals that will ultimately lead to higher total sales. These relationships are established because the scale of the new organization will enable the sales staff to specialize to focus on the various product segments, which creates added value for the customers in each segment.

#### **5.4 Scorecard Comparison**

At this point, the focus will shift to a comparison of the new organization to that of organizations of a similar scale. The new organization will have total sales between \$30 and \$50-million by merging, as shown in table 5.6.

**Table 5.6 Combined Dealer of Tomorrow Scorecard**

Category	Dealer of Tomorrow Metrics	XYZ Dealer	ABC Company	Combined Data
<b>Market</b>	Dealer Performance Market Share	39.75%	48.17%	44.0%
	90hp Tractor Market Share	20.88%	30.62%	25.8%
	Small Ag Products Market Share	23.17%	23.68%	23.4%
	Large Ag Products Market Share	42.48%	56.25%	53.2%
	Total Net Sales	\$ 21,772,645	\$ 25,750,267	\$ 47,522,912
	Ag Retail Sales	\$ 6,101,662	\$ 11,516,888	\$ 17,618,550
	Turf & Utility Sales	\$ 1,633,969	\$ 1,183,812	\$ 2,817,781
	Net Parts Purchased	\$ 3,399,019	\$ 3,892,403	\$ 7,291,422
<b>Customer</b>	Customer Experience	75.5%	81.7%	78.6%
<b>Operational</b>	NORA	9.36%	10.45%	9.9%
	NOROS	5.20%	5.50%	5.4%
	Total Asset Turnover	1.80	1.90	1.85
	Used Turnover	2.09	1.50	1.80
	Absorption	81.00%	79.00%	80.0%
	Total Expenses to Sales	17.50%	15.60%	16.6%

Source: Lenexa Dealer Development

The combined total sales value will earn the merged dealership an additional \$75,000 in volume payout from John Deere based on the current schedule. However, that schedule changes annually. The new organization would compare favorably to the average dealer with the same sales volume. Table 5.7, shows the scorecard metrics for large dealers extra-large based on total sales. The new organization performs very well from a market standpoint, but falls off slightly in asset turns and expense to sales ratio. The expense to

sales ratio will decline slightly with centralized billing and a reduction in locations; however, the extent is not known at this time.

**Table 5.7 Sales Volume Groups**

Performance Category	Dealer of Tomorrow Metrics	Large Dealers	Extra Large Dealers	New Organization
Market	Market Share	42.0%	44.6%	44.0%
	Market Share (<90hp)	25.2%	30.6%	25.8%
	Market Share (Small)	26.6%	32.2%	23.4%
	Market Share (Large)	53.5%	57.0%	53.2%
	Total Net Sales	\$50M	\$75M	\$47M
	Ag Retail Sales	21,301,486	32,594,822	\$ 17,618,550
	Turf & Utility Retail Sales	1,926,598	2,711,729	\$ 2,818,781
	Net Parts Purchased	4,705,804	8,258,063	\$ 7,291,422
Customer	Customer Experience	75.0%	84.0%	78.6%
Operational	NORA	12.6%	13.6%	9.90%
	ROS	4.50%	6.00%	5.40%
	Total Asset Turn	2.00	3.00	1.85
	Used Turn	2.00	2.50	1.80
	Absorption	75.0%	85.0%	80.0%
	Expenses to Sales	12.00%	11.00%	16.60%

Source: Lenexa Dealer Development

The new organization, with a focus on reducing expenses and capitalizing on the synergies of the merger, will be well positioned for growth. That will help the organization succeed and be more sustainable in the long run. Post merger management will have the opportunity to show the employees of both organizations that management is committed to growing sales which will provide more opportunities for employee advancement within the new company. The merger will help the new organization reduce expenses. Driving down costs and increasing value for buyers is a key component in the Blue Ocean Strategy. This

is how the leap in value for both the company and its buyers is achieved (Kim 2005, 17). The merger allows both organizations to recreate and reposition themselves as superior in the marketplace. They can do this using the strengths from each organization as well as analyzing for weaknesses and correcting those before the merger is announced to the general public. The management team will need to develop a process to increase the overall customer experience. Past experiences show that CE scores decline as organizations get larger. Customer Experience will need to be included in the core business processes to help deliver distinctive customer value (Kotler 2009). The new organization will have a larger pool of trained technicians that can be used as a differentiator in the marketplace. They can tout the combined years of service and the number of Advanced and Master Technicians the organization employs. There are countless opportunities for the organization to differentiate itself from competitors, including other John Deere dealers.

## CHAPTER VI: CONCLUSIONS

This study began with the overall picture of change that is taking place all across the rural United States with consolidations in farming and in the equipment industry. The increase in the number of large farms paints the picture of a decreasing population of machines used on those farms. That is leading equipment dealers to merge or buy neighboring dealers for long-term survival.

The study began by describing two high performance dealer organizations who combined have eleven locations and by defining the current industry potential at each agricultural location. From that data as well as drive time zones established using the Microsoft MapPoint program; recommendations were made on location rationalization. The industry potential was also utilized for the proposed locations to determine viability on the proposed location. The proposed location in Defiance, OH will be a sales and service center similar to other locations within the organization but smaller than either of the main locations.

A strategy to increase customer labor sales was described and introduced in Chapter 3 with more detail in Chapter 4, which shows the benefits of standard job pricing to the dealership, technician and customer. One of the benefits of Standard Job Pricing is reducing the service labor allowance because the customer knows the total bill before works begins on the job. Implementing SJP requires changed management from the top as this new process requires a point person to monitor and adjust the standard job times utilized by service managers and technicians. There are also financial incentives for

implementing this new process which has the potential to amount to over \$900,000 in customer labor sales. The benefits also include a one point increase in absorption which results in an increase in net operating return on assets (NORA) for a large organization. Standard Job Pricing requires a process change as opposed to an expanded service area or other capital investment. On average, a high performing dealer using SJP versus a dealer that is not using SJP has 11-percent higher charge-out efficiency, a 12-point higher revenue recovery, and almost half as much service labor allowance. The average service labor allowance savings amounts to \$48,200 for a high performance dealer. This baseline study utilizes a small pool of dealers that are utilizing SJP; only 22 organizations out of 506 are quoting at 50-percent. There may be more, but at this point this information is still unknown.

Recommendations were made on staffing a new functional structure based on the information learned from standard job pricing. The functional structure has key department managers that report to the general manager and the board of directors. This structure encourages the department heads to work together for long term planning and growth. The new structure also combines the available social capital of both organizations to foster a sense of one organization and ensure a faster integration time to become one organization.

Finally, a combined scorecard was developed and compared to dealer averages of similar scale. The new organization would have approximately \$50-million in total sales which includes all new agricultural and turf equipment, used equipment, parts sales and customer labor sales. The new organization has a few opportunities to reduce their expense

to sales ratio which is just over 16-percent and the long term goal is 10-percent.

Centralized billing should help to reduce this ratio over time.

In Chapter 5, the analysis focused on location strategy using the industry potential for each location as reported by county. This value includes the total industry potential for 20-horsepower tractors and larger equipment. The industry potential is the value used to determine the dealer market share; the dealer sales are compared to the industry sales to calculate the dealer market share. Using the industry potential the study showed the overall sales potential at each location. The industry potential was also used after determining the proposed location strategy. The proposed location strategy encourages the new organization to reduce agricultural locations to six as well as consolidating the two locations in Archbold to further reduce expenses. Combining these two locations in Archbold will most likely be a long term plan due to management issues that are not part of this study.

Future research should include more analysis on standard job pricing that may include a regression analysis with total sales as well as important aftermarket metrics. Regression analysis was attempted for this project, but the models were very problematic at this point; more and better data may correct that issue. Additionally, the study could be expanded to show the before and after changes on financials from implementing standard job pricing. This analysis may provide even more support for dealers that remain skeptical about standard job pricing. The data should also include more dealers when the EQUIP™ system begins transmitting SJP data back to John Deere. Additionally, the data should be grouped

to show the net effects on dealers with different total sales. This will ensure a larger sampling of dealers and will reduce the error in any regression analysis.

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