Agricultural Machinery Dealers in the Year 2020
Michael Husfeldt new CEO of LMB Danmark A / S

Michael Husfeldt is LMB Danmark A / S new CEO. He most recently served as Branche Manager at Dansk Maskinhandlerforening.

Michael Husfeldt will be responsible for LMB Danmark A / S distribution of CLAAS products in Denmark. He will assume the position on Nov. 1, 2013, replacing Jørgen Pedersen, who will retire by December 31, 2013.
About the group

Lantmännen is one of the largest groups within food, energy and agriculture in Scandinavia. Lantmännen is owned by 33,500 Swedish farmers and has some 8,500 employees.

Lantmännen operates on an international market, where Sweden constitutes the foundation for the group’s activities. We conduct business operations in a total of 18 countries, and are a market leader in several business areas.

One of Lantmännen Lantbruk’s prime tasks is to supply members with seeds, fertiliser, plant protection and feed, as well as receiving, storing, refining and selling what the farmers cultivate. Sales of machinery for agriculture, forestry and contracting, including extensive retail operations, are other important aspects of the business activities. In addition, we are an overall supplier of agricultural buildings. Lantmännen also conducts research and development work in association with universities, colleges and companies.
Lantmännens organization

- Internal Audit
- Board of Directors
- President & CEO
- Strategy & Business Development
- Legal Affairs

- Agriculture Sector
- Machinery Sector
- Energy Sector
- Food Sector

- Economy & Finance
- Supply Chain & IS/IT
- Human Resources
- Communications, R&D, Sustainable Development

Images of tractors and agricultural equipment.
Agricultural Machinery Dealers in the Year 2020

Scenarios for future agricultural machinery dealers in Denmark
The Work Process of DM’s Think Tank over 12 Months:

- **June 2012**
  - First meeting

- **December 2012**
  - Second meeting

- **February 2013**
  - Secretariat drafts report

- **March 2013**
  - Third meeting - study trip to the U.S.

- **April 2013**
  - Fourth meeting
  - Secretariat and Vinderstrategi finalize draft

- **Presentation at DM's management meetings 2013**

During the process, Michael Husfeldt conducted several anonymous interviews with individuals from membership companies, import companies and sales companies. In all interviews, the interviewees were presented with different development scenarios for the industry, which they subsequently commented on. They were not quoted on anything in the report and were able to speak freely.
From the first meeting in DM’s think tank on the island of Funen
Study trip to the U.S.
Study trip to the U.S.

Deere & Company
World Headquarters
Moline, Illinois 61265
Study trip to the U.S.
Our options with the DM think tank

- Option no. 1
  - External consultants

- Option no. 2
  - The secretary

- Option no. 3
  - DM think tank with members
THE DEVELOPMENT OF AGRICULTURAL MACHINERY INDUSTRY 1900 - 2020

1900
The blacksmith

1950
From blacksmith to agricultural machinery dealer

1980
Agricultural machinery dealer and new technology

1990
Sale of used machinery online

2000
New technology, GPS auto-steering

2020
Robotic machines, global equipment trade

The national machinery dealer—becomes a global machinery dealer
KEY INDUSTRIAL FIGURES FOR 2012

With an average profit percentage in the industry of 1.5% before taxes in 2011 (0.32% in 2010 and -0.73% in 2009)—the entire industry has its back against the wall—the only positive thing to point out here is that it will keep many from entering or starting up in the industry. On the other hand, it may tempt someone to enter the industry on the assumption that there must be a better way to do things with a new, competitive business model.

*Quote: Director of DM Michael Husfeldt*
KEY INDUSTRIAL FIGURES FOR 2012

The share of DM’s business owners, who are over 60 years of age, constitutes approx. 30% of all member companies. This means that, by the year 2020, one third of all member companies will most likely experience a generational change, be sold or close down. Leading up to 2020, this could result in various regional competitive inequalities and mergers, acquisitions and amalgamations.
The total turnover for the industry (DM members only) was approx. USD 1.4 billion in 2011 compared to approx. USD 1.29 billion in 2010 (turnover = sale of new and used machinery, tractors, services and parts)—leading up to 2020, the turnover is expected to increase to approx. USD 1.8 billion due to price increases, low interest costs and an ongoing need for investment in replacement and new technology. (red columns = projection leading up to 2020)

Kilde: DM egne beregninger
What Will Farming Look Like in the Future?

Segment Overview

Segments

- Industrialized farming
- Medium-sized farming
- Other rural industry
- Leisure/hobby farming
- Hobby
- Other customer segments (municipalities, entrepreneurs, housing associations, golf, etc.)
Complexity of internal and external activities

- **Complexity**
  - Necessary?
  - Profit?
  - Agility?

**INTERNAL ACTIVITIES**
- Joint venture
- 100% owned
- Small owner's share
- Salespeople
- Mechanics
- Managers
- Experts
- Importer
- Dealer
- Centralized
- De-centralized
- Retail
- 24/7 farmer
- Store ownership
- Professional competencies
- Warehouse/repair shop
- Business hours

**EXTERNAL ACTIVITIES**
- Brands
  - Claas
  - John Deere
  - New Holland
- Products
- Customer segments
- Main areas
- Sales channels
- Agricultural equipment
- Construction equipment
- Groundskeeping equipment
- Consumer products
- Public organizations
- Farms
- Entrepreneurs
- Retail
- Landscaping
- Hunting and fishing
- Cleaning
- New products
- Used products
- Parts
- Service
- Main branch
- Outlets
- Together with others
- Internet (web shop etc.)

**DEALER**

VINDERSTRATEGI
Coherence between brand value and size of agricultural machinery dealership
Future Market Map

We estimate that they will be covering Denmark with six main stores and six outlets or service partners to cover the peripheral regions of the business.

Today, there are about 135 stores associated with DM with 55 outlets. This means that if the above-mentioned scenario becomes a reality leading up to the year 2020, the industry will be reduced by approx. 35 main stores and approx. 25 outlets over the next seven years through acquisitions, mergers and closures.

Therefore, we recommend that each machinery dealer follow a strategy of becoming either a market leader or finding a niche.
Future Market Map

We assume that the number of stores will look somewhat like this leading up to 2020. As a reader, please keep in mind that this is an estimate.
Future Market Map

As a cautious estimate about the development of the industry leading up to 2020—(approx. seven years)—we can offer the following scenario, based on the above-mentioned market map:

Approximately 35 agricultural machinery dealers have found a spot in the “Niche” category. These are specialized in a small product range, e.g. groundskeeping, tools of a limited number of brands, potato machinery specialist, spraying techniques, tractor specialist with a single brand, service specialist, used machinery, light construction machinery, golf course maintenance machinery, cleaning machines for the industry, own importing agency, forestry machinery and machinery, slurry specialist, etc.

Approximately 35 agricultural machinery dealers have chosen a spot in the “Followers” category. This is where you more or less choose to sell anything to all customer segments. With a good business model, the most successful businesses in this category will most likely be able to generate a reasonable profit and the rest will deliver a mediocre result year after year.

Approximately 30 machinery dealers will belong to the “Market Leader” category. This is where we will find the five full liners and where everyone at a minimum will have tractors and combines as part of their product range.
Example of what a market map might look like for one of the big brands in 2020:

Agricultural machinery dealer model with six main stores and an unspecified number of service outlets and service vehicles.
The map has a radius of 37 miles from the main store (pin).
**Recommendation: Choose a Chain Operation or a Single Outlet**

Below is an example of a wide range of tasks (not exhaustive), distributed across either the main store or the outlet (main stores are gray and outlets are green):

<table>
<thead>
<tr>
<th>Sales</th>
<th>Service</th>
<th>Parts</th>
<th>Customer Understanding</th>
<th>Daily Reporting (tasks and hours)</th>
<th>Manage and Distribute Work among Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>Export sales</td>
<td>Strategy</td>
<td>Customer training</td>
<td>Supplier bargaining</td>
<td>Invoicing</td>
</tr>
<tr>
<td>Payroll</td>
<td>Vehicle fleet</td>
<td>Account-thing</td>
<td>Collections</td>
<td>Advertising and marketing</td>
<td>Hiring and adaptation of staff</td>
</tr>
<tr>
<td>Accounts</td>
<td>Administrative IT systems</td>
<td>Industry updates</td>
<td>Supplies</td>
<td>Inventory</td>
<td>Logistics</td>
</tr>
<tr>
<td>Cash flow</td>
<td>Insurance</td>
<td>Banking</td>
<td>Introduction of new staff</td>
<td>Project management of large projects</td>
<td>Staff development</td>
</tr>
</tbody>
</table>

Therefore, we recommend that each agricultural machinery dealer run their business either with a main store or as a chain as much as possible, and with a clear and precise distribution of tasks.
Recommendation: Define a New Value Chain

Should we change, or perhaps even improve, the way each machinery dealer runs their business?

Each store needs to consider where to add value in the value chain. In other words, where the store wants to make a difference and create the greatest benefit for the customer.

In the future, we might see stores focus more selectively on a single task than handling all the usual tasks, such as procurement, sale of new and used machinery, service and parts. For example, we could imagine several stores that only sell used products or stores that concentrate on being service stores with spare parts. Other dealers might focus more on offering and selling know-how, for example the use of technology in crop production (last box in the figure).

It is therefore recommended that each machinery dealer identify where the business could improve or get cheaper compared to other suppliers, with a view to a specific customer group.
Recommendation: Define a New Value Chain

The typical value chain for agricultural machinery dealers is:

If we take a closer look at each area of the value chain (except Development & Production and Import & Distribution, as these are typically managed by the manufacturer), it is also interesting to look at the areas where authorized machinery dealers typically are contractually restricted, as well as business areas, in which the machinery dealer can develop activities and competitive strategies independently.
**Recommendation: Define a New Value Chain**

- Who is financing the inventory of new tractors and machinery—is it the agricultural machinery dealer, the importer or the manufacturer?
- Who takes on this financing cost and risk—can be crucial for the machinery dealer’s competitiveness
- Inventory costs and cash flow restriction
- Inventory optimization A, B and C parts (reduction of inventory)
- More collaboration on spare parts supply in groups within brands
- Optimization of spare parts inventory between manufacturer and machinery dealer
- Return of sellable spare parts—seasonal pre-ordering and fixed credit terms.

- Factory order system with short delivery times—customer order system “build-your-own” machine or tractor before production starts
- Systems regarding procurement of parts and machinery
- Joint inventories and central warehouse for machinery dealers with 12/24-hour delivery.
Recommendation: Define a New Value Chain

- Sale of new tractors and machinery in an allocated area (often by zip code)
- Local marketing (demonstrations, sales calls, advertising, displays, open house, etc.)
- Preparation, commissioning and customer training
- Customer follow-up / customer satisfaction
- Sale of financing
- Sale of service contracts
- Sale of optional machinery
- Pre-ordering of new units for inventory
- Staff training (products and sales)

- Sale of used tractors and machines (globally)
- Global marketing (advertising, websites, etc.)
- Sale of optional machinery and accessories
- Sale of financing
- Sale of service contracts and insurance
Recommendation: Define a New Value Chain

- Service and maintenance
- Complaints
- Repair
- Sale of parts (new and used)
- Sale of accessories
- Sale of merchandise
- Service set-up with service vehicles, which more or less solve all tasks in the field/at customer's location
Recommendation: Define a New Value Chain

- Courses in daily maintenance for machinery operators
- Courses in mechanical optimization for operators
- Training in automatic operation
- Training for drivers of tractors and combines
- After-hour customer events with a focus on streamlining and new technology
- Consulting about investment and financing
- Study trips and trips to exhibitions for customers abroad
- Team days about new cultivation methods and operational optimization
- Customer meetings about service and maintenance safety
- Sale of consulting on optimization and service agreements

Many of the above-mentioned points are not immediately contractually restricted. The value chain still has many areas that machinery dealers can focus on in order to create a unique competitive strategy and business model.
Overview of Options

Small machinery dealer:
- Consolidate upward
- Collaborate with a bigger dealer
- Find a niche
- Collaborate with several small dealers

Medium-sized machinery dealer:
- Consolidate upward/merge
- Find a niche within agriculture
- Find a niche outside agriculture
- Collaborate strategically in a group
- Acquire

Large machinery dealer:
- Focus on performance optimization
- Consolidate upward
- Take over import function
- Devise global development strategy
- External management
THE DEVELOPMENT WITHIN THE AGRICULTURAL MACHINERY INDUSTRY 1900–2020

The industry that we are part of will experience a development that will most likely be characterized by the following trends leading up to 2020:

• Total production in units (unchanged or slightly decreasing)
• Number of customers (decreasing)
• Service concepts (increasing)
• New technology (increasing)
• Value of the industry (increasing)
• Production sustainability (increasing)
• Investment opportunities and interest (increasing)
When do we have a winning strategy?

A good way to test whether the company has a winning strategy is to ask:

1. How does the company look like in three years?
2. What action is needed to get there?
3. What the company is really good at?
4. What activities should be closed down?

If you can answer spontaneously on all 4 questions and, interestingly the same from all leaders - it is our experience that the company is well on its way to becoming winning company…………
Are the agricultural machinery dealers ready for a mass wedding leading up to 2020?
NO—they are not …

The agricultural machinery industry is based on an independent ownership culture and the owners are motivated by the very fact that they are independent and responsible for their own progress and success. The changes that the industry will be undergoing will be caused by external factors, often as a gradual process—but sometimes, they will happen out of the blue. Those are tougher to handle, also psychologically—but if you make sure to consolidate your business, there are always more options.

And remember: "It’s never too late to turn around, no matter how far you’ve gone down the wrong road."
Presentation for members in May 2013 around in Denmark
What should the report be used for?

The agricultural machinery dealer

Our own estimate

Knowledge from other actors

The report 2020

The future and my strategy
How can the report be used?

- The agricultural machinery dealer
- The management team
- Suppliers
- Employees
- Board of Directors, shareholders
- The future and my strategy
If you don’t know where you’re going, you might end up somewhere else.
Questions?