Agricultural Machinery Dealers in the Year 2020

Table of Contents

INTRODUCTION

This report is about the future of agricultural machinery dealers. It is based on the challenges that machinery dealers will be facing leading up to the year 2020, and what companies can do to adapt in order to strengthen their position leading up to the year 2020.

In order to define future challenges and opportunities, the Association of Danish Agricultural Machinery Dealers (DM) set up a think tank consisting of a DM Future Committee and DM's Board of Directors, as well as chairpersons and board members from the brand associations in Denmark.

The following individuals participated in DM's think tank:

From DM's Board of Directors:

- Chairman Jens-Aage Jensen (MJV Maskiner A/S)
- Deputy Chairman Lars Møller Andersen (Møller Andersen ApS)
- Board Member Lars Søndergaard, (O. Søndergaard & Sønner A/S)
- Board Member Helle Nielsen (Nic. Nielsen A/S)

From DM's Future Committee:

- Hans Jørgen Madsen (BMH A/S),
- Lars Holst Sørensen (Brdr. Holst Sørensen A/S)
- Carsten Nielsen (Nic. Nielsen A/S)
- Anders Søndergaard (O. Søndergaard & Sønner A/S)

It has helped the process that we managed to have almost all large tractor and combine brand associations represented in the work with the report.
The following people participated:

- Sales Manager Flemming Tandrup (VALTRA brand association)
- President/Owner Anders Vester (AGCO brand association)
- President/Owner Børge Vestergaard (CLAAS brand association)
- President/Owner Søren Holst Sørensen (CASE/IH brand association)
- President/Owner Keld Andersen (John Deere representative)
- President/Owner John Pedersen (New Holland brand association)

The report was prepared in close collaboration with the Director of DM, Michael Husfeldt, and Author and Strategic Expert, Mikael Vest and his colleagues from Vinderstrategi A/S [translated name: Winning Strategy, Inc.]. Furthermore, Journalist Niels Damsgaard Hansen, of ndhtxtfoto, has participated actively, both as a tour guide on the trip to the U.S. and by helping to conduct interviews with the participants of the think tank.

Not necessarily all participants can be held responsible for the content of this report and its partial conclusions, but we have tried to reach a consensus on numerous crucial strategic areas and recommendations.

It is our hope that this report will inspire our members and the players of the industry and provide guidelines for the Danish agricultural machinery dealers in the future.

We would be delighted if the report would provide ideas and inspiration to boards of directors, managements and employees in our member companies, so that they can develop a sustainable strategy for the business that they are responsible for and, in particular, focus on developing long-lasting and sustainable competitive advantages for the benefit of the company's earnings and future foundation.

To avoid leaving the readers in a void after they read the first part of the report, the second part will contain a number of tools and methods for the ongoing work with the company's position in the agricultural machinery industry in the future.

We hope that the report will give our members some strategic input for finding their path into the future, best expressed by a quote from Casey Stengel:

"If you don't know where you're going, you might end up somewhere else."

Happy reading—and remember, it's difficult to predict the future—but it's useful!

Lars Møller Andersen
Chairman of DM's Future Committee
The Association of Danish Agricultural Machinery Dealers

Michael Husfeldt
Director
The Association of Danish Agricultural Machinery Dealers

The Association of Danish Agricultural Machinery Dealers is the official trade organization and employers' association for agricultural machinery dealers in Denmark. The membership circle includes 134 main stores with a total of 190 outlets distributed throughout Denmark. In 2011, the members had a turnover of approx. USD 1.4 billion worth of new and used machinery, parts and service. In 2012, the members employed 2,916 employees in service, parts, sales and administration.

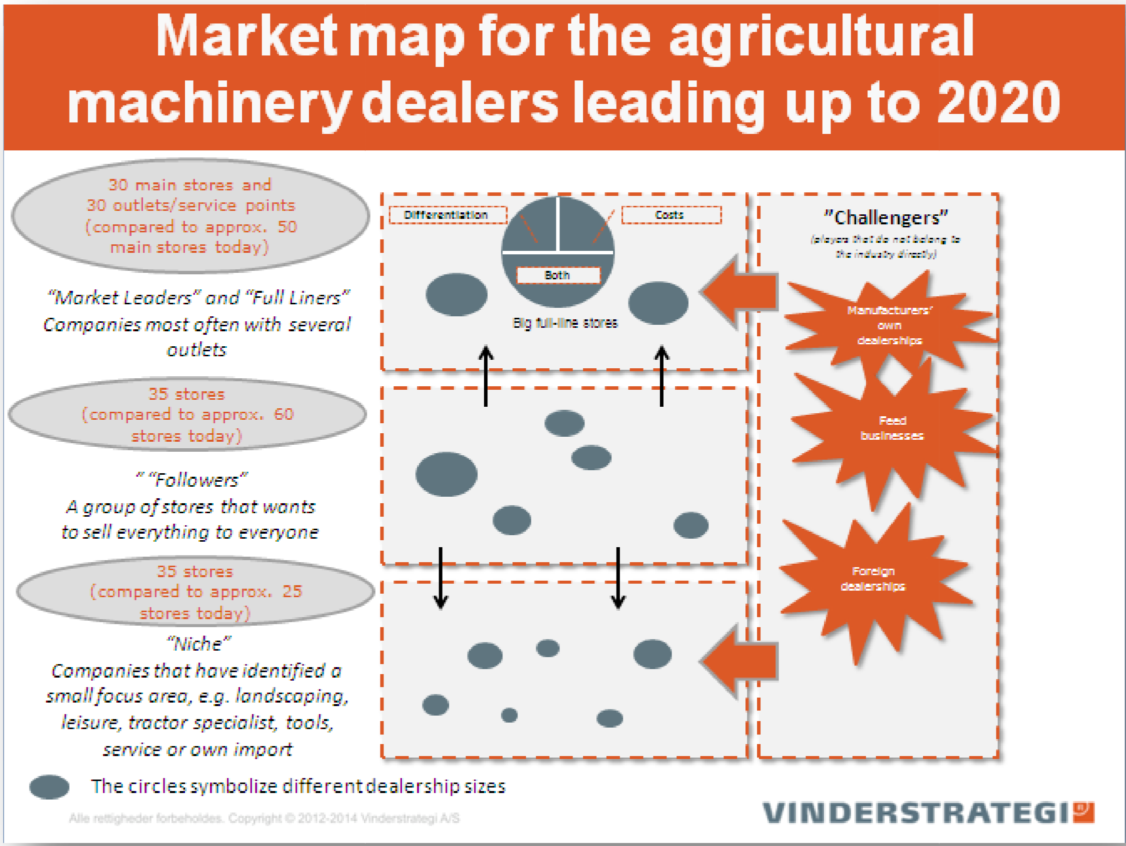
EXECUTIVE SUMMARY

This report aims to provide a number of guidelines for the agricultural machinery industry and all the players in the industry leading up to the year 2020.

The report primarily focuses on changes in the distribution of products and services. The common “theme” throughout the report is the fact that the industry is driven by external changes. These changes are a combination of changes in the manufacturers’ distribution strategies and changes in customer needs.

The Agricultural Machinery Dealers in the Year 2020 report has generally worked with a hypothesis of the industry finding a new way leading up to 2020, either by consolidating or by finding a niche. Furthermore, the report contains a number of recommendations for small, medium and large-sized businesses and the strategic considerations that their managements could work with over the next seven years leading up to 2020.

In a cautious estimate for the development of the industry leading up to 2020—the following scenario can be outlined based on the market map that the report used:



Source: Vinderstrategi A/S and DM—note: The current number of dealerships used in the three categories is solely based on an estimate.

Approximately 35 agricultural machinery dealers have found a spot within the “Niche” category. These have specialized in a small product range, such as: landscaping, tool specialist with a limited number of brands, potato machinery specialist, spraying techniques, tractor specialist with a single brand, service specialist, used machinery, lightweight construction machinery, golf course maintenance machinery, cleaning machinery for the industry, own importing agency, forestry machinery and machinery, slurry specialist, and more.

Approximately 35 machinery dealers have chosen a spot in the "Followers" category. This is where you more or less choose to sell everything to all customer segments. With a good business model, the businesses that fare best in this category will probably be able to make a reasonable profit and the remaining businesses 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.

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.

The share of DM business owners over the age of 60 totals approx. 30% of all member companies. This means that, by the year 2020, almost 1/3 of all member companies will most likely see a generational change, be sold or close.

This situation could cause various local competitive inequalities and mergers, acquisitions and amalgamations in many areas leading up to 2020.

The industry is expected to experience an increase in turnover in sales, service and parts and there will be limited changes in employment within the industry with regard to hourly employees. A big reduction in the number of permanent employees in administration, parts and sales is expected.

The industry that we are part of will experience a development that will 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)

The industry will most likely be affected by an increasing demand for food and consequently increasing prices on the goods that our agricultural customers need to sell. The world is expected to grow by 70 million new citizens every year leading up to 2020.

The machinery and tool suppliers will probably have to come up with new distribution channels—and they will most likely have limited shelf space in the big full-line stores in 2020. They will have to find their distribution as a niche business or a follower business.

The industry is facing having to solve both structural and operational challenges leading up to 2020.

The structural challenges will include the placement of machinery dealers throughout Denmark within the same full-line brands. What should the response time for service be?

Today, the machinery dealers' stores within the same brand are 30 miles apart. Over the next few years, this will double—and the distance between the stores will reach 60 to 75 miles, depending on the area's road system and number of farmers.

The machinery dealers that follow the big full-line brands must be willing to pursue the objectives as defined by the manufacturer.

In addition, they must:

- Have the same product range in all their stores
- Post signs and use other store layout that is in line with the manufacturer's requirements and strive to become the best by:
  - Possessing knowledge about the industry
  - Making a profit
  - Having effective, well-known and described work processes
  - Having a good image
  - Providing the customers with the expected service
  - Being able to document great customer satisfaction through customer surveys
  - Meeting the manufacturer's goals for market shares

Furthermore, the following elements will be included:

- The customers must have the option of having parts delivered to their homes
- Service and repair vehicles must be available to carry out repairs at the customer's location
- Modern technology should be used actively as part of customer support
- If the customer surveys show any areas that require improvement, these must be initiated as soon as possible
- The manufacturer will be assisting the machinery dealers much more in the future. The well-known relationship, where the manufacturer and machinery dealer are polar opposites, should be replaced by a close collaboration with "partnership" as a common denominator.

The market for agricultural machinery leading up to 2020 will be characterized by:

- The same or decreasing volume
- Fewer customers
- A demand for improved service
- More advanced technology
- A demand for increased sustainability
- Increasing value of sold units and services
- The industry becoming more interesting as an investment opportunity

The following applies to machinery dealers of the future:

- Service will become the most important factor
- An increased focus on professional service will be required
- Machinery dealers will need strong finances in order to meet the requirements
- A closer collaboration between the manufacturer and the machinery dealer will be a prerequisite

In the future, customers will expect:

- To be able to purchase high-tech products that are easy to use, reliable and comfortable for the users
- High level of machinery productivity with low costs through technological solutions, such as remote online monitoring at many levels, including automatic controls, etc.
- To know the operating costs through fixed agreements on purchases, rentals and leasing, including ongoing service, repair, etc.
- Flexible solutions that include service, training and financing
- Transparent product lifecycle, both from an environmental and an economic point of view
- Professional handling of all types of customers, from big professional customers to hobby users
- That communication is adjusted to their current needs
- Increased use of IT

At many large dealerships, the manager will be a group manager in 2020, rather than an machinery dealer. There will be a professional board of directors and shareholders that will have expectations of management and earnings.

The entire industry is facing big tasks with regard to developing a business model that focuses on earnings. On average, the industry has a combined ratio of 98.5, which means that only USD 0.26 (2011 numbers) was earned for every USD 17.5 that was sold. Even a wrong strategy should not lead to such a poor result.

Both earnings on sales and service must be increased. Additionally, it is necessary to reduce the capital tied up in spare parts inventory through collaboration and a more efficient utilization of distribution options.

The industry has an inventory of spare parts totaling almost USD 530 million (in gross prices), of which almost USD 107 million is posted as realizable items—the turnover rate is estimated at below 2 on average. The capital costs alone for financing the inventory of spare parts substantially decrease the earnings potential for the industry.

With an average profit percentage for 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 into or starting up in the industry. On the other hand, it may tempt some 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

METHOD AND DATA

The analyses and future scenarios that you can read about on the following pages are based on knowledge sharing in the think tank as well as contributions and interviews with a number of players in and around the industry.

The report is primarily limited to discussing the agricultural machinery market and the development of the agricultural industry, as this is where many businesses currently can generate the biggest turnover in sales, service and parts.

The report has not discussed all the other customer segments that many member companies also operate within in terms of sales, service and parts. These many segments include agricultural contractors, forestry contractors, the private market, groundskeeping, housing associations, municipalities, regions, government, the Danish Defence, building and construction companies, landscapers, leisure, hunting and fishing, etc.

The members of DM's think tank had their first meeting in June 2012 on the island of Funen, where they discussed the work and objectives of the think tank. Managing Director Otto Freiesleben of Nellemann Agro gave a presentation at the meeting.

After a long career in the agricultural machinery industry, Otto Freiesleben, if any, has helped influence the industry and set forth the agenda surrounding the development of the agricultural machinery dealership, and worked in the "field" between the manufacturers' and the machinery dealers' expectations for the future.

Otto Freiesleben shared his story about his role and challenges and, in particular, his thoughts about the future.

The following meeting was held in December 2012 with presentations and discussions with Author and Strategic Expert Mikael Vest, Chairwoman Johanne Marie Laursen, Landboungdom [Danish Rural Youth] and Department Head Svend Friis Bak of Landbrug & Fødevarer [Danish Agriculture and Food Council].

In early March 2013, some members of the DM think tank went on a study trip to the U.S. that included visits and meetings with CNH (Case IH) in Burr Ridge, Illinois and Deere & Company's global headquarters in Moline, Illinois.

Photo: From the study trip to the U.S.

Photo: From the first meeting in DM's think tank on the island of Funen

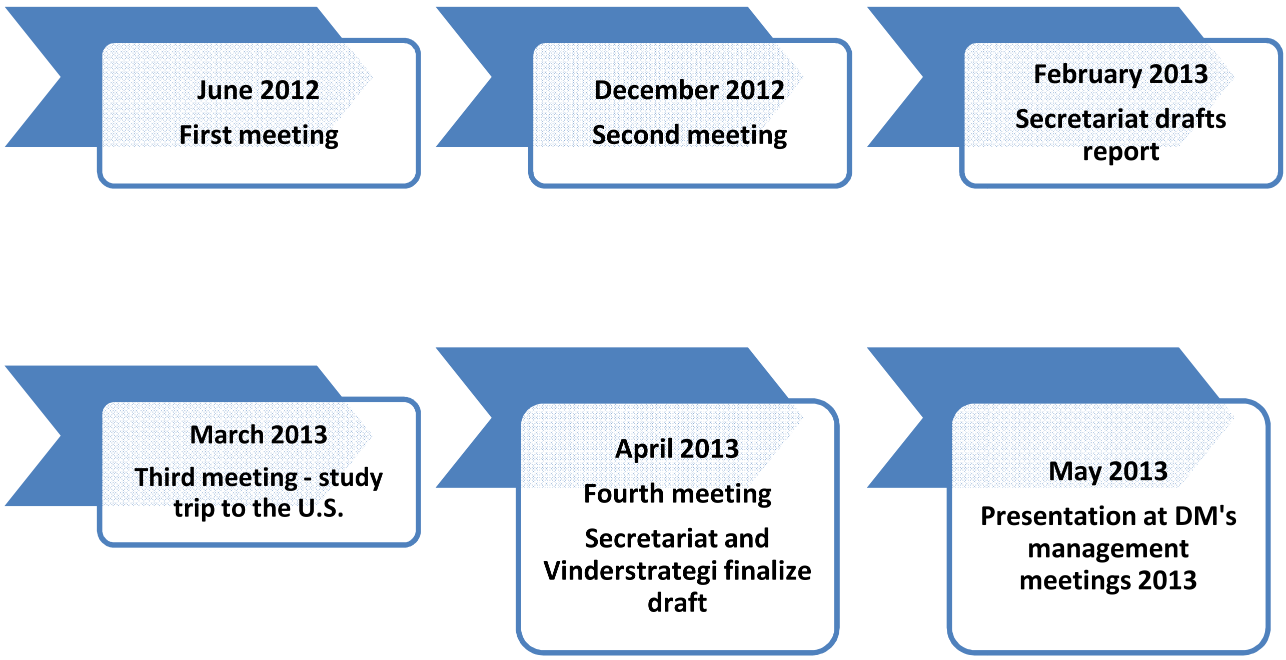
Furthermore, the committee visited the John Deere dealership, Barker Implement in Knoxville, Iowa, the construction and agricultural machinery dealership Ziegler Cat in North Mankato, Minnesota and Titan Machinery (Case IH and New Holland agricultural machinery dealership) in Fargo, North Dakota as well as RDO Machinery (John Deere agricultural machinery dealership) in Moorhead, North Dakota.

The trip has contributed to a better understanding of the necessary changes that the industry will have to undergo in the years leading up to 2020.

DM's think tank conducted three meetings during the trip and spent time reflecting after their visits and meetings, and had discussions and dialogs to help with the preparation of the report.

DM's think tank held their last meeting in April when Managing Director Per Stjernqvist of VOLVO Entreprenør Maskiner A/S (VOLVO Construction Machinery, Inc.) in Denmark gave a presentation.

The Work Process of DM's Think Tank over 12 Months:



Source: DM

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.

MEMBERS OF DM'S THINK TANK SHARE THEIR THOUGHTS

Eight anonymous interviews were conducted with selected participants from DM's think tank. These interviews are attached to the report as Appendix 1.

Below are some brief statements from the interviews:

- The goal is a business that is ready to be taken over by another business at a fair price within the next 5–10 years, or that will be included in a merger or strategic alliance. The current model does not work.

- In our opinion, a business model with the family as the sole proprietor won't be sustainable in the future. The family could very well be part of the staff or the group of owners in a future business. Based on that, we don't expect to see businesses such as today's businesses in 2020.
- We want good negotiations that generate a profit. This doesn't necessarily have to come from self-propelled machinery, because we realized a long time ago that it is not possible to serve all segments and/or to sell or serve a wide range of machinery.
- The advantage of increasing the size of the business considerably is the opportunity to hire staff that can focus 100% on areas, such as marketing, HR management, organization of workflows, etc.
- If it is not possible to grow in size, the only way forward is through specialization within a niche. That is our own experience.
- In our opinion, the future looks decent, but there will not be room for as many agricultural machinery dealers as there are today. There will only be half as many owners left in 2020, but there will be almost as many outlets as there are today.
- My impression is that the agricultural machinery dealers won't be giving up themselves; rather, they will be forced out of business, mostly due to poor finances.
- A lack of opportunity for a generational change will also force many businesses to close down or be bought up by others.
- We personally need to get better and learn to better manage staff qualifications and competencies in all areas. This means sales, parts and repair shops.
- The focus should be narrower and, as an owner, it is important to have the courage to delegate to your staff that is willing and able to take responsibility rather than report on their area on a regular basis. With a 110 per cent focus on your own area of responsibility, it would be more profitable to be an agricultural machinery dealer than it is today, when too many resources are wasted on being involved in everything.
- We currently have a size that allows us to grow, either organically or by merging with others or acquiring other machinery dealerships. Alternatively, you can choose to become a small machinery dealership that specializes in a certain niche.
- We are going to have to be strong in the future, as our customers are getting big and will be included in large deals with expensive, used machinery that subsequently needs to be financed.
- I could imagine all of Denmark gathered under the umbrella of a single machinery dealer with a head office and outlets located at a suitable distance from each other.
- I believe that many of the current, large machinery dealers in Denmark are too small to be big because they are not able to specialize their staff and have dedicated staff members for all staff functions.
- The suppliers must be more ambitious on behalf of themselves and us. They should also focus more on having financially sound agricultural machinery dealerships rather than capturing market shares.
- The family-owned machinery dealers should bring external resources onto their boards—if the industry does not become more professional and manages to adapt in the future, it will end up as a bunch of unorganized mechanics.
- The dream is a turnover of at least USD 17.6 million and a profit of USD 880,000. In order to achieve that, employees must be co-responsible for the daily operation and

optimization. The industry has good employees, who need to be trained to become even better.

- I believe that our own business will cover a larger geographical area in the future. There are many ways of achieving such growth. This could be through mergers or organic growth, where we wait for others to close down.
- If you merge with others, it will require new, modern buildings. The problem is that existing buildings are not worth very much when they are not used for current purposes. It could be difficult to finance new construction.
- However, I believe that the opportunities of the future are positive and plan to be part of the industry in ten years.
- There is too much talk and not enough action. For example, the challenge of selling used machinery needs to be solved—it is too expensive to repair used machinery.
- My freedom and independence are the most important in my life as an agricultural machinery dealer.
- The top agricultural machinery dealers will take over the big brands in tractors and other self-propelled machinery because the machinery is getting more and more technologically advanced.
- You must focus 100 per cent on what you are good at. That is the prerequisite for making a profit and selling. It might be necessary to skip negotiations in order to reach that goal.
- That the development leading up to 2020 requires more people to merge and create agricultural machinery dealerships that cover a substantially larger area than they do now. This could include more tractor brands.
- It is dangerous to invest at a time when it is not known what the big brands might require of their machinery dealership network in the future.
- I predict that manufacturers may take part in mergers and acquisitions that can cause substantial changes to our reality as agricultural machinery dealers.
- It might be a good idea to create an outlet together with other machinery dealers in order to sell used machinery faster. It would be a particularly good idea to place machinery with an outlet that sells other brands than what you sell.
- I believe that the machinery manufacturers see sense in the machinery dealers also making a good profit. In order for that to happen, it is to be expected that the manufacturers of self-propelled machinery will demand an insight into the companies' finances and other key factors.
- I have a positive view of the future and could imagine that a Danish agricultural machinery dealer would grow big enough to have employees in staff functions, such as service manager, used machinery manager, HR staff, etc.
- Right now, however, many Danish machinery dealers are too small to be big and too big to be small. They are currently at a crossroads.

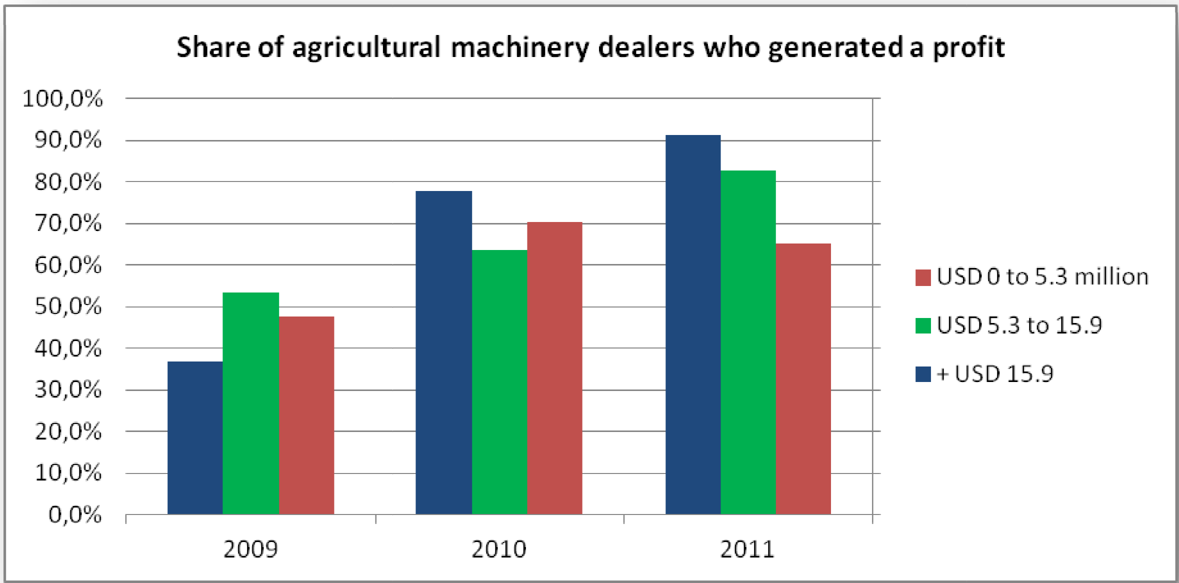
KEY INDUSTRIAL FIGURES FOR 2012

In order to illustrate the challenges and development opportunities of the industry, we have retrieved some key accounting figures for members of the Association of Danish Agricultural Machinery Dealers.

The analysis is based on accounting figures from the following number of member companies in 2009, 2010 and 2011:

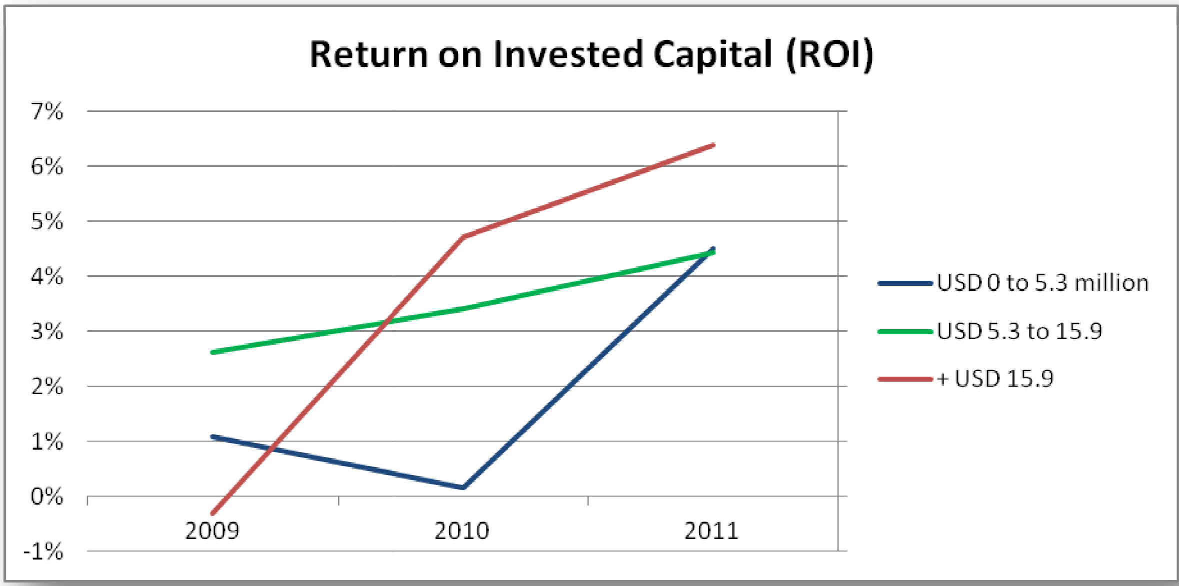
			Number of Member Companies		
Turnover in USD			2011	2010	2009
	-	5,300,000	40	47	42
5,300,001	-	15,900,000	46	44	45
15,900,001	-		23	18	19

We start by taking a look at how many member companies had a profit for the period. The group that had a turnover of USD 0 to 5.3 million in 2011 made up the biggest share of companies (almost 40%) that did not deliver a financial result that generated a profit before taxes. In the group that had a turnover of USD 5.3 to 15.9 million, a little more than 80% generated a profit on the bottom line in 2011, and in the group with a turnover of more than USD 15.9 approx. 90% made a profit in 2011.



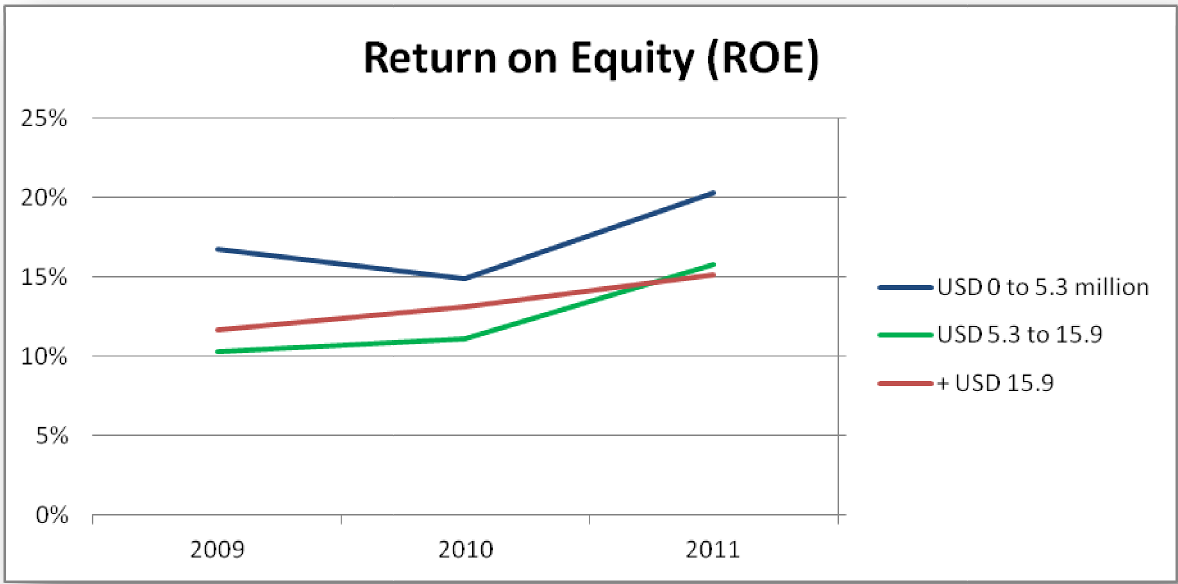
Source: DM's own calculations

When we look at the return on invested capital, the group with a turnover of more than USD 15.9 million delivered the best result by far, with a return of approx. 6.5%—all three groups improved their result considerably during the period.



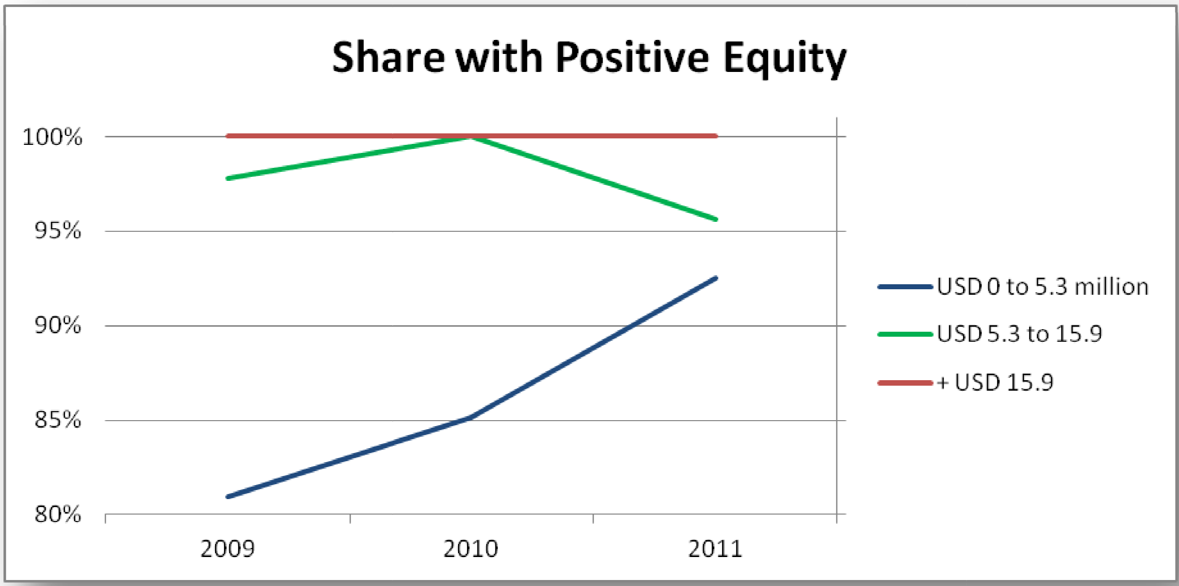
Source: DM's own calculations

The return on the companies' equity has developed positively in all groups over the last few years.



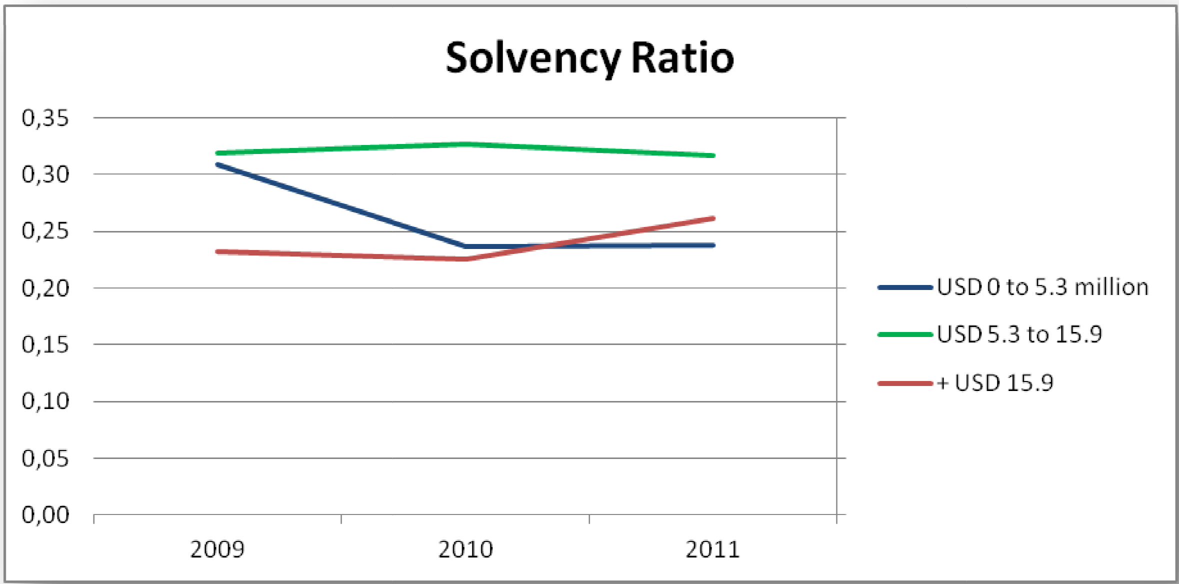
Source: DM's own calculations

The share of companies with a positive equity is steadily increasing in the group of USD 0 to 5.3 million, whereas the group with USD 5.3 to 15.9 million has decreased during the period 2010 to 2011. The group with a turnover of more than USD 15.9 million enjoyed a positive equity for the entire period.



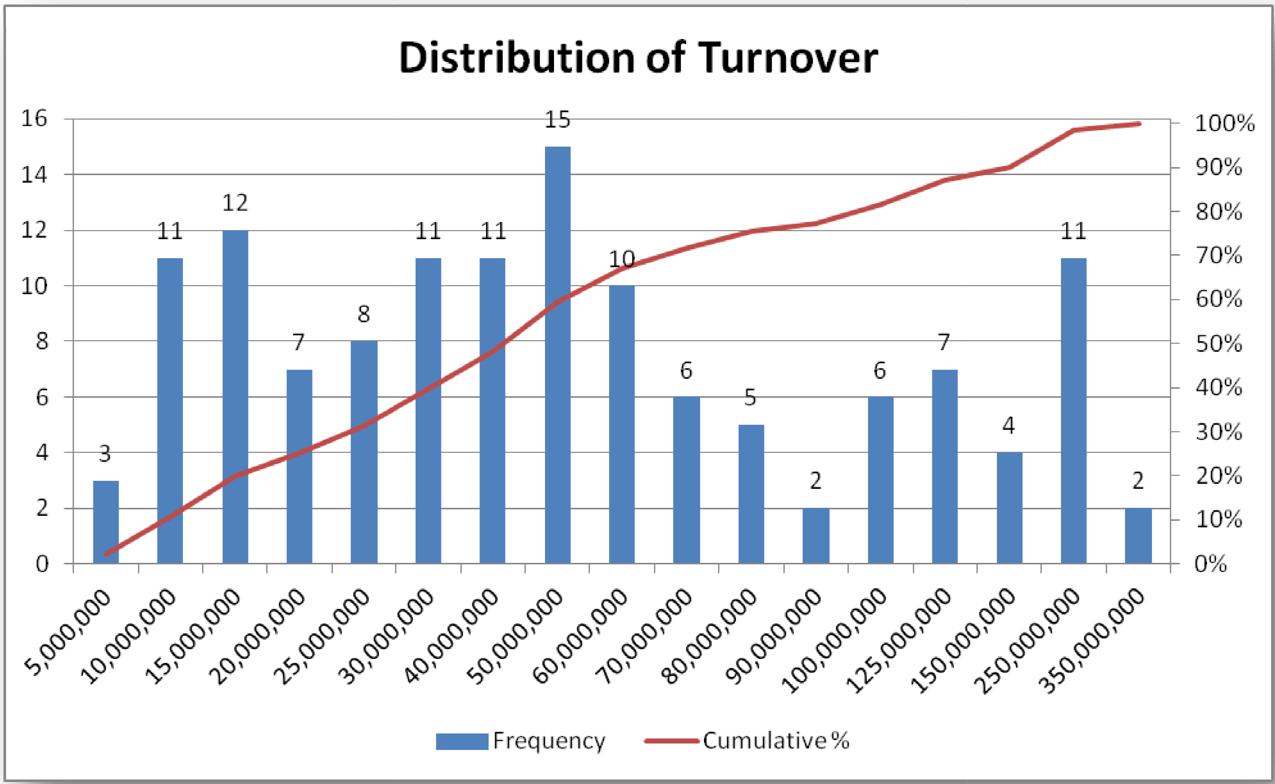
Source: DM's own calculations

The solvency ratio is biggest for the group with USD 5.3 to 15.9 million for the entire period. The group with USD 0 to 5.2 million is declining and is now below 25%.



Source: DM's own calculations

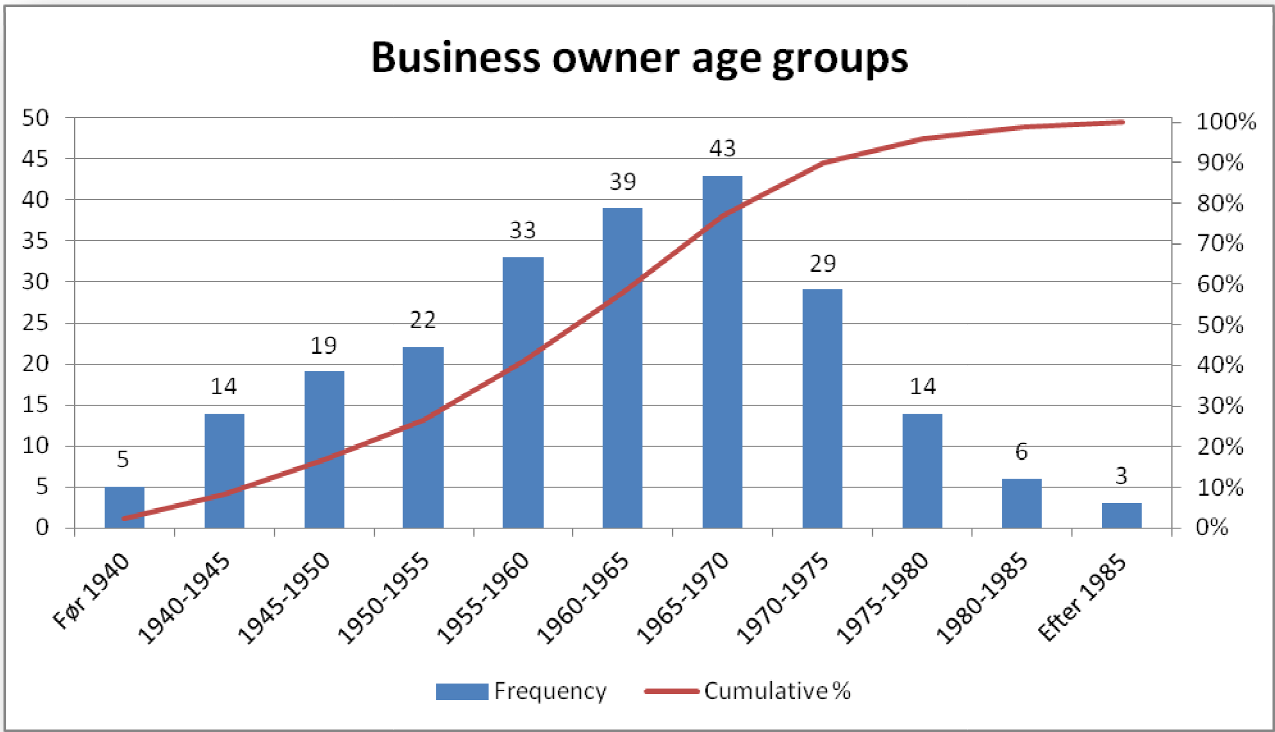
The distribution of turnover among DM members shows that the biggest group (a total of 15 businesses) had a turnover between USD 8.8 to 10.6 million. 13 businesses had a turnover that was bigger than USD 44.2 million for the period.



Source: DM's own calculations

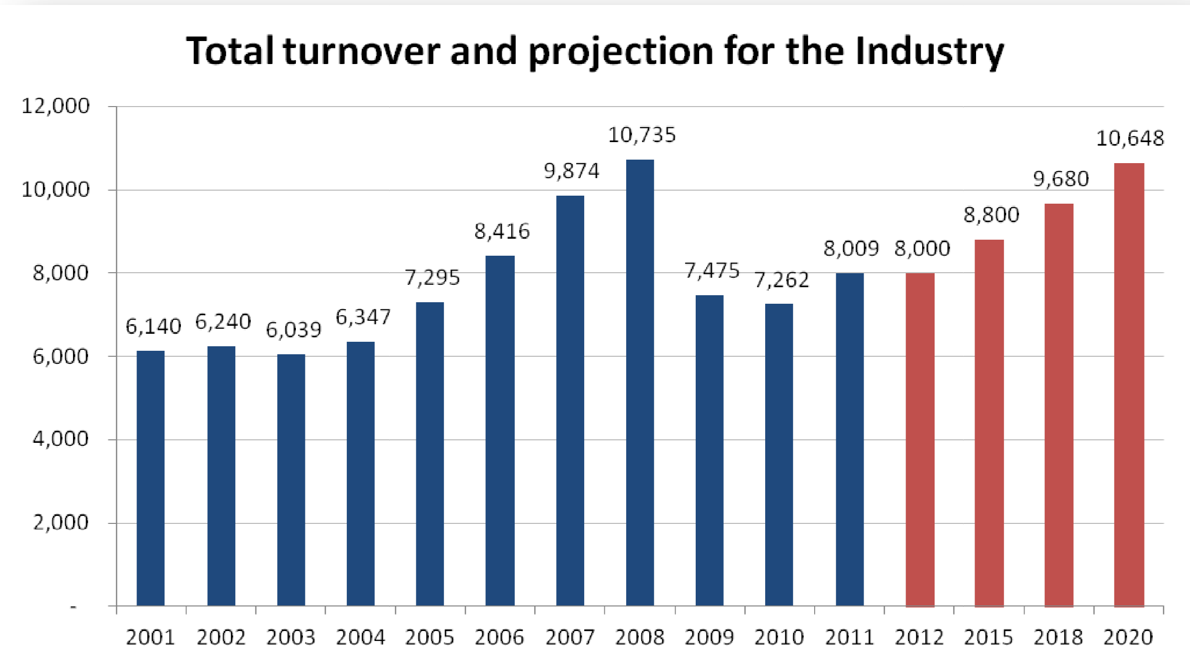
The share of DM's business owners, who are over 60 years of age, constitutes approx. 30% of all member companies. This means that, by the year 2020, one third of all member companies will most likely experience a generational change, be sold or close down.

Leading up to 2020, this could result in various regional competitive inequalities and mergers, acquisitions and amalgamations.



Source: DM's own calculations

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)



Source: DM

A number of positive and negative circumstances that could affect the development and structure of the industry.

Positive effects

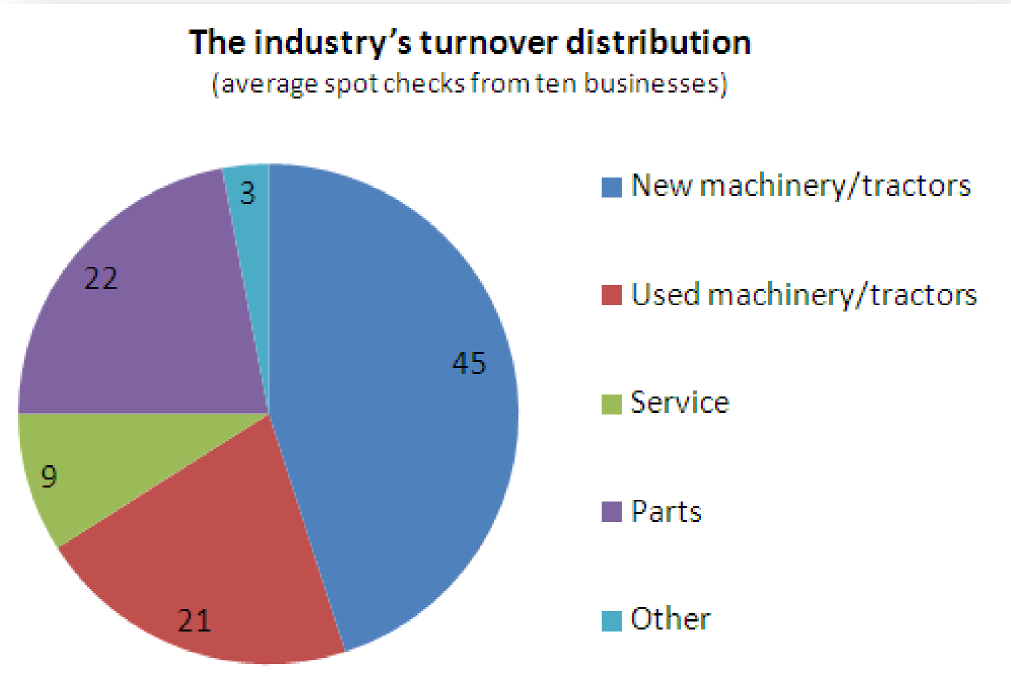
- Increasing population = more food
- New products = blurring of sectional barriers
- Internationalization
- Increased sale of used machinery abroad
- Increased cost per hour
- Sale of knowledge/consultation
- Sale of service
- Improved state of the market

Negative effects

- Political editorials
- Animal welfare
- Lack of employees
- Internationalization--foreign dealerships in Denmark
- Increasing costs/less competitiveness
- Global transparency on prices
- Financing conditions for the agricultural industry in Denmark
- Structural development in Denmark - fewer farms
- Blurring of sectional barriers--new players in the agricultural machinery industry
- Manufacturers taking over retail in the agricultural machinery industry

Source: DM

The industry's turnover can be distributed approximately as follows (average based on 2011 turnover)



Source: DM

We conducted spot checks on 105 accounts of DM members out of 137 possible accounts. In 2011, these 105 member companies had a total turnover of USD 1.1 billion, i.e. an average turnover of approx. USD 10.8 million. These 105 member companies generated a total profit before taxes of approx. USD 17.7 million, which corresponds to 1.5% before taxes.

In 2010, the same group sold for approx. USD 1 billion with a profit before taxes of approx. USD 3.2 million (0.32% before taxes and in 2009, the turnover for the same group was USD 1.03 billion with a loss of approx. USD 7.4 million (-0.73%)

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

THE AGRICULTURAL MACHINERY MARKET LEADING UP TO 2020

Robotic or Remote-controlled Machinery and “Smart Farming”

Source: Blue River Technology

We currently have the technology, e.g. for fruit orchards, that involves driverless robotic machines that handle simple spraying tasks for row crops. According to British and Swedish articles, these self-propelled robots will probably be in more use by 2020, and, to a greater extent, control the machinery from places other than the cab.

GPS, RTK (real-time kinematic), Google Earth are used to control the functions of the machinery, maintain the direction within an inch or two on the field, automatically open and close individual nozzles, register all actions, such as seeding rate, fertilizer quantity, herbicide and amount, yield, moisture, dry matter content and time management of all tasks. Everything can be registered accurately with a GPS/RTK/Google position and thereby, together with weather data on temperature, precipitation and irrigation amount, the potential for optimizing the yield on each lot can be calculated.

At the same time, agricultural machinery dealers can keep an eye on the tractor or the machine online, where information is generated about the efficiency of the engine, transmission and other systems. This information is stored and can form the basis for planning the next servicing with regards to date and time, and when a service technician is in the area. This can help minimize the machinery dealer’s costs associated with concluded service contracts. Alternatively, could farmers lease their machinery through the machinery dealer?

Information is gathered and used for “Smart Farming”—which means that all functions are monitored and gathered in a program that allows analysis and processing of data for better optimization of, for example, positioning of the grain cart before the combine is emptied next. This allows the information to be expanded and used for “softer values”, such as consultation with the agricultural machinery dealer and other consultants. It will also provide an opportunity to compare the efficiency and consumption of three different drivers/machines for the same type of work.

Similarly, you can apply “Smart Farming” to the enterprise and monitor feed and medicine for each animal, which allows for optimization and traceability.

Large Machines

Large machines can be a logical solution for optimization. However, there is a limit to the size that you are permitted to drive on the road system. At the same time, large machines often weigh more, which can cause damage to the field. If you choose to use fixed wheel tracks, the damage will be limited to these tracks. This puts demands on the width of the machine, as the track width of a tractor and trailer should correspond to the track width of the combine.

Drones that are equipped with a camera and GPS/RTK/Google can fly over the crops, which allows you to determine the types of weeds that may grow in the field as well as their location. The sprayer's individual nozzles can be controlled by the information from the field map, thereby allowing mere "spot treatments" wherever necessary. The advantage is less use of pesticide and less driving on the field.

Machine Requirements

Wider machines with more functions to avoid additional passes, which are time-consuming, expensive and have an adverse impact on the soil and the environment—PTO drive shafts and hydraulic systems are heavy and power consuming, which is why several machinery and tractor manufacturers are working on developing machines that can be powered by electrical engines and thereby "trim down" the machines. The power should be generated by the tractor since you cannot store very much on a battery, which is why today, tractors are being made with the capacity to produce power (380V) and with coupling to the tools.

Power and control of various machines makes demands on communication to and from the tractor—an area where ISOBUS hopes to be of help. Many machines already have various programmed basic settings for different crops—these can be used as is, but can be fine-tuned according to need, knowledge, experience, wind and weather conditions.

Additional Requirements

This technology requires special training of both the driver and miscellaneous mechanics. The driver must at least be able to operate a "basic" program, which is pre-programmed to perform various work tasks—unfortunately, most users typically only use the simple pre-programmed functions and hence do not fully benefit from all the functions and values that they have purchased.

GPS/RTK controls, antennae and calibrations, computers that communicate, adjust and calculate automatically—all require knowledge of automatic controls, operation and programming.

380V power cables, plugs and electric engines make greater demands of the mechanic. Electric engines that are supposed to carry out adjustments prompted by a computer or programming from the driver, must work very precisely and, if that is not the case, the mechanic needs to be able to detect and assess the error.

Prioritizing and developing recruitment, education, further training and retention of staff becomes increasingly important, since specialized knowledge is the end-all and be-all.

Do you need to be a brand dealer to be able to service, troubleshoot and delete errors?

So far, there has not been a lot of competition in this area, as the market has been relatively small, but as more computers are introduced there is an increased need to be able to communicate with brands other than your own. Thereby, an attractive market is starting to develop within agricultural machinery, just as in the automobile and truck industries over the last several years.

There are now companies who provide computer testing for communication with most brands and models within agricultural and construction machinery. By their own admission, these are updated almost as quickly as by the brand suppliers. They may not be able to solve all tasks, but they believe that they are able to handle most common tasks, which would mean that you would not necessarily have to be a brand supplier in order to service, troubleshoot or delete errors.

New Fuel Types

There are several alternatives to fossil fuels. In Denmark, we now have two small second-generation biodiesel plants that can produce “Griesel”, which is made from meat plant waste, and biodiesel, which is made from other waste products (such as wood chips, straw, etc.), where straw is one of the main ingredients, i.e. biodiesel that is not based on food.

At the same time, tests are being conducted to produce fuel from algae and there are now hydrogen-powered cars. It will very much depend on the economy, whether these will be carried out on a larger scale. In order to run on pure biodiesel, engines must be designed specifically for this purpose.

Denmark’s Energy Strategy

With the strategy, the Danish government has proposed a number of energy initiatives that in the short term will lower the dependence on fossil fuels significantly. In the time leading up to 2020 alone, the strategy will reduce the use of fossil fuels in the energy sector by 33% compared to 2009. Furthermore, the strategy will increase the share of sustainable energy to 33% by 2020 and lower the gross energy consumption in 2020 by 6% compared to 2006 as a result of an increased focus on energy efficiency.

Biogas

According to the Danish Biogas Association, plans are in the works to build several plants starting in 2014. As opposed to German plants, the intention is not to produce biogas from food, but rather to focus on producing from organic waste from different kinds of production, including slurry, deep litter, meat plant waste, household waste, straw, etc. It is also the intention to increase the number of biogas-fueled vehicles in the future. This plan requires specially designed engines that can run on biogas.

The degassed slurry, which is thinner after degassing, can subsequently be distributed over the fields as fertilizer with a drip hose boom after degassing. The thin slurry seeps into the soil more easily and faster where the plants can absorb it better. This will result in fewer odors, as they are reduced when degassed, but also because they are absorbed faster by the soil. At the same time, it will reduce the energy consumption when the slurry no longer needs to be precipitated and it will allow for better utilization in various established crops that are currently struggling with the thick slurry that we currently know.

Bio-oil

A research team at Aalborg and Aarhus universities has come up with a method to produce a petroleum-like product, which is also made of the same raw materials, i.e. slurry and organic waste. They call the method HTL.

The HTL method has been around since the 1930s without really catching on. However, together, the universities and Steeper Energy ApS (steeperenergy.com) have now come up with a new way of doing things.

The biomass is converted into a petroleum-like product, a number of water-soluble by-products in the form of small organic molecules—of which the types and quantities depend on the type of biomass used—and, finally, a bit of ash as sediment.

The bio-oil is so similar to fossil petroleum that the oil industry's current plants will be able to process the bio-oil into diesel, gasoline and even aviation fuel. The petroleum from the process can be used as fuel oil for ships.

As opposed to bioethanol, for example, there is no need to convert or change the engine or mix the biofuel with gasoline. Jet engines, for example, cannot use bioethanol.

The new kind of bio-oil has what the transport industry calls "good drop-in properties". This means that it can quite easily be integrated into our society's existing technology.

What we know as waste products today will be a raw material in demand—but will there be sufficient slurry? Is there enough organic waste? Can the degassed slurry continue on to HTL plants?

In any case, both conventional farmers (not organic farmers) and agricultural machinery dealers must expect the spreading of slurry, manure and deep litter on the fields to cease completely by 2020, as this will be a raw material in the future with a certain value in addition to the value of regular fertilizer.

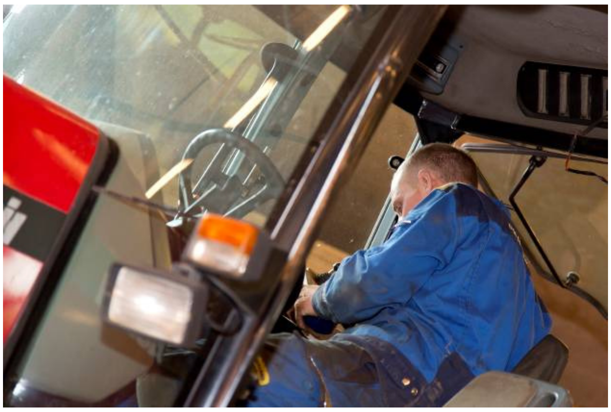


Photo: ndhtxtfoto

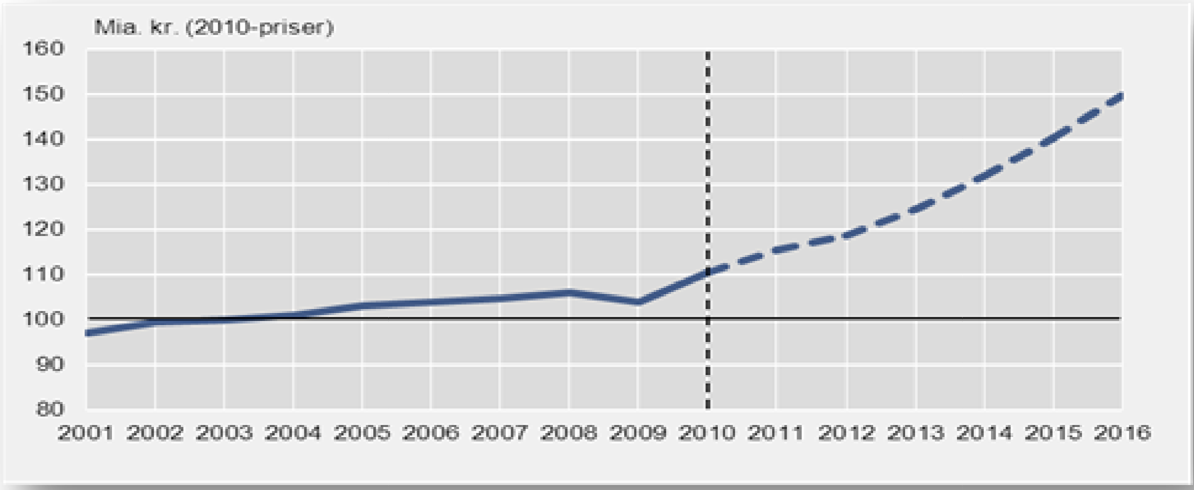
THE STATE OF AGRICULTURE NOW AND LEADING UP TO 2020

The agricultural production in Denmark is diverse and comprises many different production sectors, from the production of pork, beef, poultry and dairy to the production of potato starch, hayseed and mink. The production value of agricultural products when they leave the farmer totals approx. USD 14 billion. The production covers approx. 0.15 million tons of beef, 4.88 million tons of dairy, 8.79 million tons of grain, 2.01 million tons of pork, 0.22 million tons of poultry and approx. 15 million mink. The food industry contributes substantially to maintaining the Danish welfare society, including significant employment, especially in the rural areas of Denmark. The high number of jobs creates economic growth. Additionally, the food industry pays numerous taxes, which help finance the Danish society. There are approx. 141,000 jobs distributed across almost 100,000 workplaces in the farming and food industries—the rest are associated jobs.

Approximately 60% of the trade profit can be attributed to the food industry and the production value is approx. USD 26 billion. The Danish farming and food industries are the third-largest food group in the world.

The explosive growth in Asia's middle class will also offer many opportunities for Danish export.

The Value of Agricultural and Food Exports and Projection/Goals Leading up to 2016



Source: Danish Agriculture and Food Council

In recent years, agricultural income has been under pressure due to low prices of certain agricultural products as well as high prices of input factors. The agricultural industry, however, is heading towards a strong growth in earnings in the years to come.

The European Union recently published a report and a projection indicating that leading up to 2022, there will be an increase in demand for plant products and dairy.

There is a paradox in Denmark, however, of plenty of long-term opportunities yet many difficult short-term challenges with ongoing pressure due to new taxes and additional regulations regarding animal welfare and the environment. There is also a credit crunch that still prevents many from investing.

Since 1990, there has been a massive structural development in Danish agriculture—the number of farms over 10 ha is now down to approx. 30,000, of which approx. 12,000 can be described as full-time farms.

Number of Farms over 10 ha, 1,000

Source: Statistics Denmark

Distribution of Acreage and Farm Size in Denmark

Acreage and farm size distribution in Denmark								
	Farm land				Farming and horticultural farms			
	1995-99	2009	2010	2011	1995-99	2009	2010	2011
Absolute numbers; 1,000 ha:								
Excluding cultivated area					814	679	1980	1848
Under 5 ha	4	3	4	3	1268	826	1099	712
5–10 ha	74	62	58	58	10139	8615	8031	8125
10-20 ha	192	108	112	109	13204	7556	7785	7559
20-30 ha	214	112	106	100	8668	4532	4304	4076
30-50 ha	433	195	191	181	11109	5018	4896	4669
50-100 ha	836	435	426	406	12003	6034	5925	5634
100-200 ha	599	728	702	687	4512	5176	4981	4847
over 200 ha	338	981	1048	1095	1072	2949	3098	3191
Total	2690	2624	2647	2639	62789	41385	42099	40661
Avg. farm size, ha					42,8	63,4	62,9	64,9

Source: Statistics Denmark
Note: More small farms are included from 2010

Source: Danish Agriculture and Food Council—facts about the industry 2012

Projection of the Farm Structure in Denmark

Projection of farm structures

Number of farms	2011	Estimate 2020*
Total number of farms	40,700	22,100
Part-time	28,100	15,000
Full-time	12,600	7,100
Distributed as		
Cattle	4,300	1,900
Pigs, etc.	3,200	1,700
Mink, poultry	1,300	Not available
Plants	3,700	2,000

Source: Statistics Denmark, Institute of Food and own calculations

Note: Projections from 2007/08

Source: Statistics Denmark, Department of Food and Resource Economics and own calculations from the Danish Agriculture and Food Council—note: Projection from 2007/08

Please note that the above estimate is a very cautious estimate for 2020—but probably the most realistic estimate that we can relate to in this report.

We estimate that the projection for the number of farms in Denmark in 2020 is very likely and should be included in our work with agricultural machinery dealers of the future.

What Will Farming Look Like in the Future?

Farming Type I

- Industrialized livestock—growth business with 300–5,000 animal units
- Many livestock are run as a business
- Owned by farmers, institutional investors and small, local investors
- At the forefront of the development in the rural districts

Large horticultural production

- Acreage is owned as well as leased
- The company's business foundation is a large-scale operation of high-value crops
- Additionally, the company will cultivate new niches, e.g. medico

Farming Type II

Niche farmer

- Business foundation is based on creating experiences and adding value to products
- Big role in nature management

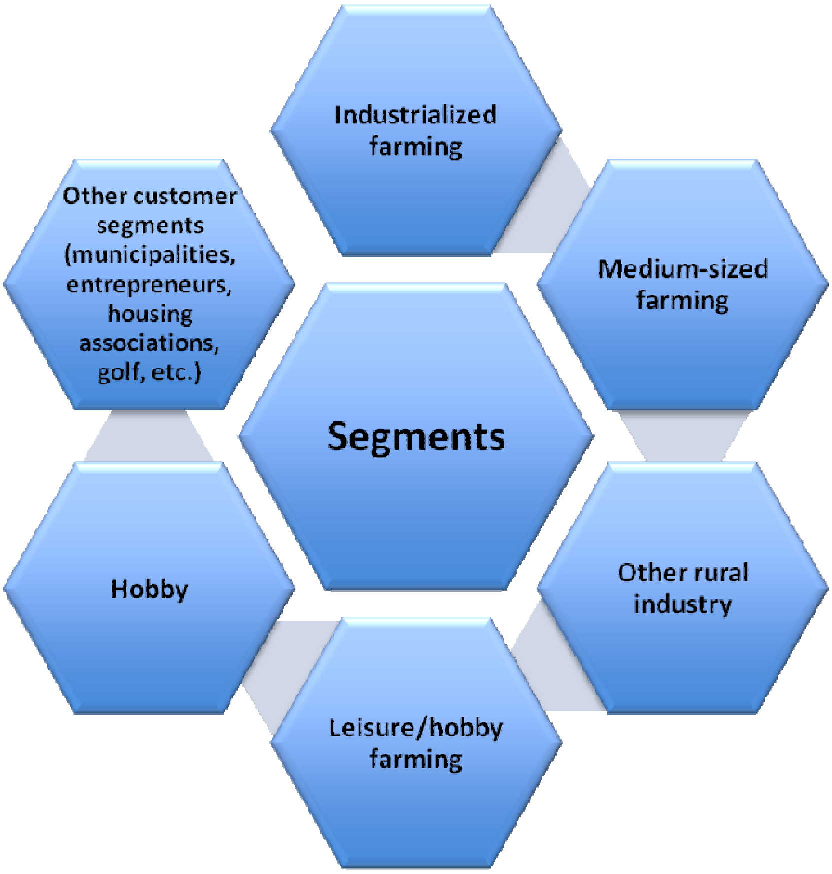
Other rural professions

- Tourism, riding schools, small food companies, energy production
- Innovative—wants to convert new technology and knowledge into products and results
- The farmer acts more as an investor and asset manager

Part-time farmer

- Cultivates land, but primary occupation outside the industry
- Small debt, solid farming
- Life in the countryside and different kinds of farming

Segment Overview



Source: DM

THE FARMER IN THE YEAR 2020

Not long ago, many farmers were more or less born to take over the family farm, but soon, that will probably be a thing of the past—today, many of those who go into farming have chosen their education and future themselves. If you look into the future, however, those who will be managing and running farms will be selected to do the job, either as managers or directors, just like in many other industries.

The “farmers” of the future will be few and far between and will possess many skills, great knowledge and a unique drive. They will be more business-like and families will not be involved in the running of the farm.

The difference will grow—farms will merge and there will be a great difference between very small farms and the “super” farms that will focus on large-scale operation, more employees, fewer owners and more collaboration.

Ownership will exist in the form of freehold and leasing. The financing will come from mortgages, pension funds, other farmers as well as companies.

Young farmers and large farms are ready to consider other models for the farm. Farmers and agriculture students would prefer to own their own farm. In the future, however, farmers will be much more willing to consider other types of ownerships.

Danish farmers, both established farmers and next-generation farmers, who are currently undergoing education, would also prefer to personally own their farm in the future. This is evident from a survey about attitudes on ownership types and financing among more than 3,000 farmers and agriculture students, which was conducted by the Danish Knowledge Centre for Agriculture.

Ready for Alternatives

Currently, more than 90% of Danish farms are run as classic freehold. And, if it is up to farmers, young and old, that is how it should remain in the future.

Hence, nine out of ten established farmers prefer freehold as the preferred form of ownership. Among agriculture students, this number is eight out of ten.

The survey also reveals that, despite their preference of freehold, young farmers and large farms are ready to consider other models for the farm. Four out of five agriculture students could imagine running a farm according to other models if freehold is not possible. On the other hand, only less than half of established farmers would accept this. Influence is important.

Hence, only 18% of agriculture students are interested in farming if they do not have the controlling interest in the company. For established farmers, the thought of not sitting at the end of the table, is completely unacceptable. Only one out of twenty farmers would consider working as a farmer in a model, where they do not have the controlling interest.

The survey also shows that farmers with the biggest farms are more open to new types of ownership than owners of small farms. However, even among the largest farms with turnovers of more than USD 1.7 million annually, eight out of ten still prefer freehold.

If a retrospective integration were to take place in the farming industry—where, for example, the food industry were to own or run farms—this could provide great perspectives, but could also involve a lot of conflict. On the one hand, you could solve financial, economic challenges related to size and supply, but on the other hand, we could easily see clashes with the previous owner and management structure within primary agriculture. Retrospective integration is growing significantly in many places in the world. As such, the primary goal of several large American agro and food industries is to purchase farms in order to secure raw material supplies.

Source: Journal of Rural Economy

Agricultural Machinery Dealers Must Understand Customer Needs and Processes in the Future

Today, modern farms consist of many complex management and work processes, such as management and planning, machinery procurement, field work, feed handling, machine maintenance, follow-up and feedback or evaluation.

This is where the machinery dealer must contribute to improving the production efficiency and the area where they should be working on strengthening customer relations and professional consulting and sparring.


Photo: ndhtxtfoto

LEADING UP TO 2050—THE LAND WILL BE LOVELY

Can you predict what the Danish society will look like in four decades? The answer is NO, you cannot. However, you can learn a lot by trying, writes Realdania in their 2050 Report—"The Land Will be Lovely".

Drawing the contours of the future is an effective and useful way of analyzing the present. It helps us understand how our society evolves and how we can realize social objectives.

"Plan for the future—because that's where you are going to spend the rest of your life."
(Mark Twain)

In the year 2050, Denmark may only have 1,000 large-scale farms, 20 agro-industrial groups and three high-tech bio-refineries.

Nine out of Ten Danes Will Live in the City

- 1.5 million Danes will live in the eastern urban belt of Jutland from the city of Randers to the city of Kolding
- 4.5 million people will live in the urban region of Copenhagen, Denmark/Malmo, Sweden
- 40,000 Copenhageners will have moved to the green neighborhood of Nordhavn
- Copenhagen will have 170,000 more citizens
- Denmark will have 1,000 large-scale farms, 20 agro-industrial groups and 3 high-tech bio-refineries
- 80% of all transportation will be electric

Our Residences Will Use 50% Less Energy

- Almost 100% of our residences will be connected to district heating and district cooling
- 40% of our food will be organic
- The city of Horsens will have 25% more citizens, Aarhus 16% more and Copenhagen 21% more
- The cost of electricity will be four times as high at 6 p.m. as 1 a.m.
- More than 50% of all personal transportation will be collective
- 100% of our energy and electricity will come from sustainable sources of energy

Source: RealDanias Report 2050

AGRICULTURAL MACHINERY DEALERS—WHAT DO WE DO NOW?

The Biggest Challenges

In connection with their study trip to the U.S. during the week of March 4, 2013 the think tank discussed the biggest strategic challenges.

Listed in random sequence, the DM think tank identified the following challenges:

1. The risk of big, new competitors entering the market
2. Changes and increased requirements from the brands, such as John Deere's "Dealer of Tomorrow"
3. General economic situation, for example, regarding earnings, solvency and financing
4. Forward-looking need for highly educated staff, team development and ensuring availability of proper resources
5. Large inventory of used products
6. The need for volume and critical mass
7. Improved customer service and understanding of customers
8. Owners' leadership skills and the need for thinking more in terms of "from machinery dealer to group managing director"
9. Frozen market with regard to mergers, acquisitions and generational change
10. Insight into new technologies
11. Forward-looking strategy—in particular the need for devising a profitable business model
12. Importers' and manufacturers' bargaining power
13. The increasing number of large customers leads to increased competition and lesser earnings and, at the same time, *knowledge-intensive services* are in demand
14. Less differentiation in the market where everyone looks the same
15. Composition complexity of each store
16. Reduce dependence on others and increase others' dependence on self

Based on the overall circumstances determined by the think tank, we will now describe the most important issues that all agricultural machinery dealers should consider in order to respond to/or use the above-mentioned.

At the same time, we will focus on a number of immediate recommendations, based on the above-mentioned. However, please note that a "recommendation" should be equated with circumstances that "should" be considered. The reason being that we are not able to make specific recommendations for each dealership as this report serves as a general brief for the industry.

Finally, we will complete the report by mentioning a number of tools that each machinery dealer could benefit from working with.

In this regard, please note that there is more than one correct solution and that, obviously, you cannot copy what others may have done.

Therefore, each agricultural machinery dealer needs to find their own path, based on their own strategic work regarding strategic analysis and strategic intentions. Hence, this brief should be regarded as inspirational information.

The Industry's Attractiveness and Earnings Potential

An overview of the industry's attractiveness and earnings potential provides a good understanding of the challenges listed above.

In principle, there are five forces that help determine an industry's attractiveness:

1. The supplier's bargaining power
2. The competition among existing players
3. The customers' bargaining power
4. The option of substituting existing customer needs with new products
5. The threat of new entrants in the market and thereby new competitors

Below are a number of factors that help decide the strength of these forces. If they are strong, it means that the industry has a low earnings potential for the players.

The figure shows that when it comes to the bargaining power of suppliers and customers, these have a lot of influence and, at the same time, there is great competition among the agricultural machinery dealers. Hence, these are given the factor "strong force"

The risk of new competitors is assessed as strong with regard to the potential penetration of farm supply companies; on the other hand, it is very difficult for individuals to establish themselves in the market due to e.g. capital-intensive investments. This factor is therefore rated as "medium".

Finally, there are substituted products, which, so far, are rated as having a "low force".

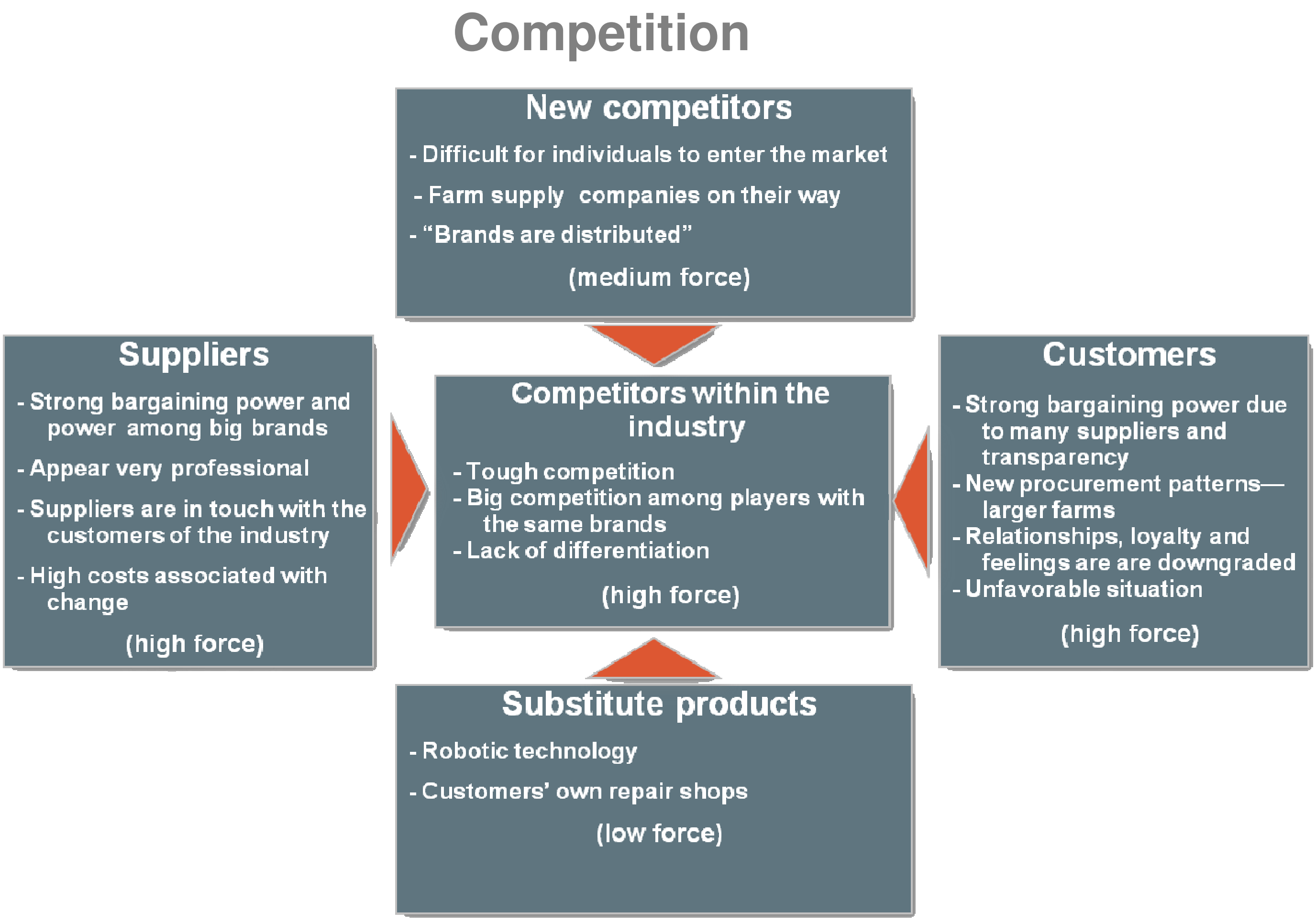


Figure 1: The industry's attractiveness and earnings potential

As indicated in the previous sections and graphs on economy, including operating margins in particular, part of the explanation can be found in the above-mentioned.

Therefore, extraordinary efforts are required in order to run a good business.

Bringing coherence to the way your business is run today—and tomorrow—is a good start. Also with regard to the brands that are sold.

Recommendation: Adapt the Size of the Business to the Brands that are Sold

We have outlined the coherence between brand value and the current requirements below. At the same time, we have added an evaluation of the requirements for the size of agricultural machinery dealers, depending on the brand(s).

The figure below shows that the higher the brand value of each brand, the higher the requirements for the machinery dealers.

To start with, the figures at the bottom have no or very limited requirements[1]. Then there are a number of operational requirements for, e.g. how a certain product needs to be serviced. The requirements can also become more stringent, with regard to facilities, like for example certain repair shop machinery, display and storefronts. Finally, some brands have more structural requirements, like for example organization (number of employees

[1] The figure is only meant to illustrate a number of trends. It should not be regarded as an indication that the individual brand has no specific requirements.

per turnover/tractor sale, the salesperson and the manager cannot be the same person, etc.) or financial results (requirements for ROI).

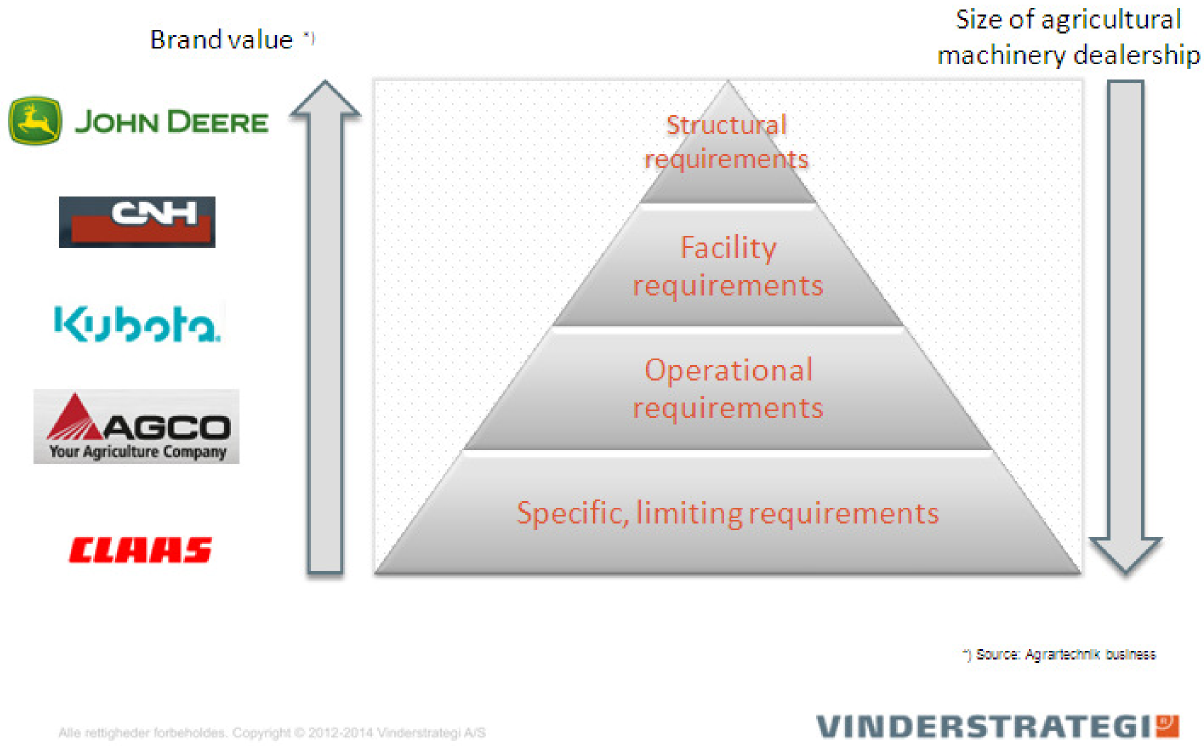


Figure 2: Coherence between brand value and size of agricultural machinery dealership

It will be difficult for small agricultural machinery dealers to meet all the requirements that they could face in the future. For example, it is going to be particularly difficult for those machinery dealers, who continue to sell several tractor brands.

We therefore recommend that each machinery dealer collaborate with brands that best suit their business and the future ability of the business. Alternatively, they could form partnerships or become a branch or area distributor of a bigger company, etc.

Recommendation: Reduce the Complexity

It is our assessment that a number of machinery dealers would benefit from reducing the complexity of their business. This is particularly relevant when they need to increase their profitability and examine the growth potential of the company.

We also call complexity “The silent killer”, as it creeps up on you and no one realizes its impact on the business until it is, perhaps, too late. If it is indeed too late, it shows that the complexity is so extensive that it is impossible for the company to extricate itself from it within the existing time frame.

This could happen if there are changes in the outside world, if customers have new preferences or if there are changes in circumstances related to your suppliers that could have an impact on the company’s way of meeting its customers’ needs.

The company might not react and adjust the business in a satisfactory way in time for the new conditions due to the complexity. Typically, because things are out of perspective and the impact of various initiatives is overwhelming. Worst-case scenario, the company is paralyzed, and hence the business model disintegrates.

A good place to start when assessing the complexity and considering reducing it, is to consider whether deselecting some areas could help strengthen others. It is no different from pruning fruit trees! When doing so, you remove some branches to allow for more air and sunshine, so that other branches can grow stronger—and the result is an even nicer tree.

Many stores have a wide product range while having a broad client base as well. This makes it difficult to focus.

It is important to think about if you want your store to be nothing to everyone or something to some.

The figure below shows a hypothetical situation where the complexity is out of control.

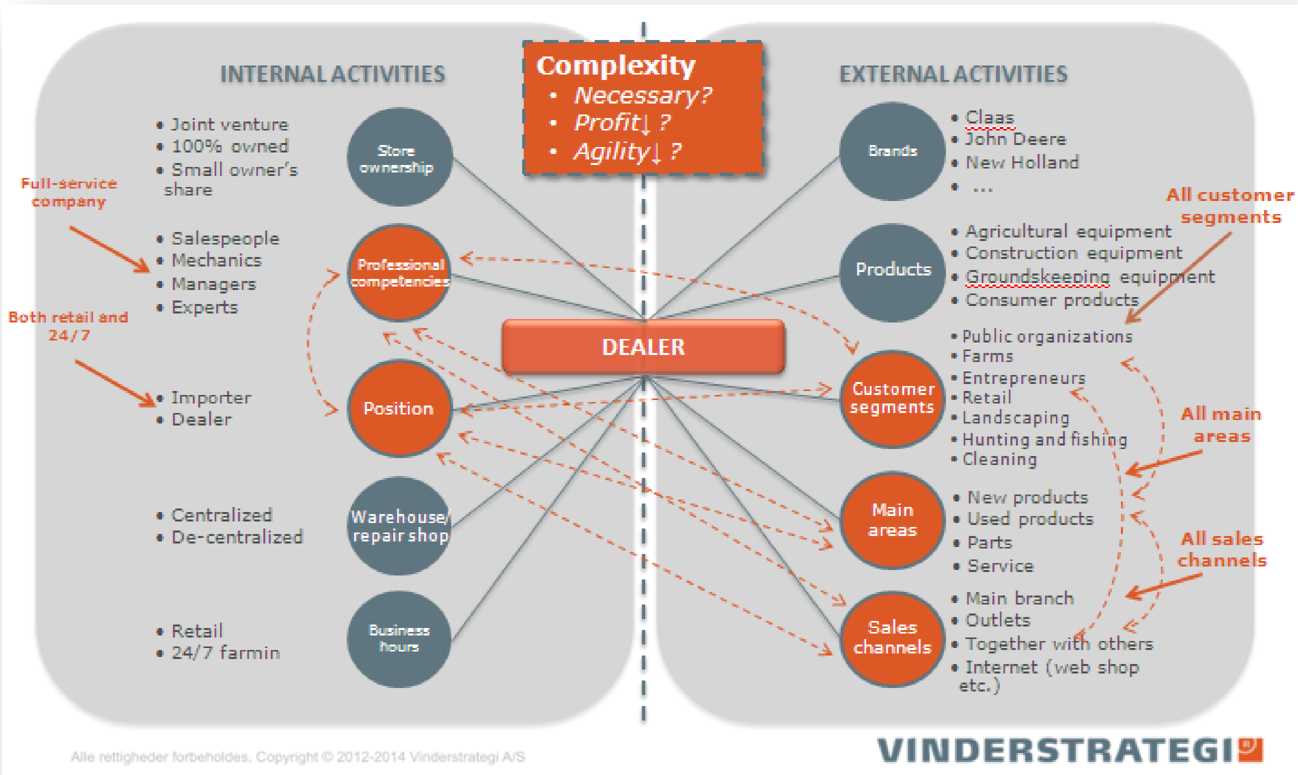


Figure 3: Complexity of internal and external activities

It is a good idea to start by considering, which customer segments you need to focus on in the future. Here are some segments to “choose” from:

- Industrialized farms (large, efficient farms)
- Medium-sized farms
- Leisure/hobby farms
- Farming combined with other production
- Niche farm
- Large hobby farm
- Landscaping companies and municipalities
- Construction companies and facilities
- Cleaning companies

- Private individuals (hunting, fishing)

Each customer segment can be opened up according to what is currently being offered to that particular customer segment. If, for example, you are focusing on medium-sized farms, which products and services are you offering to that particular segment?

We therefore recommend that all agricultural machinery dealers define whom they want their store to serve and the needs they want to fulfill.

Recommendation: Consolidate and Become a Market Leader or Find Your Niche

We have produced a market map that shows a hypothetical market.

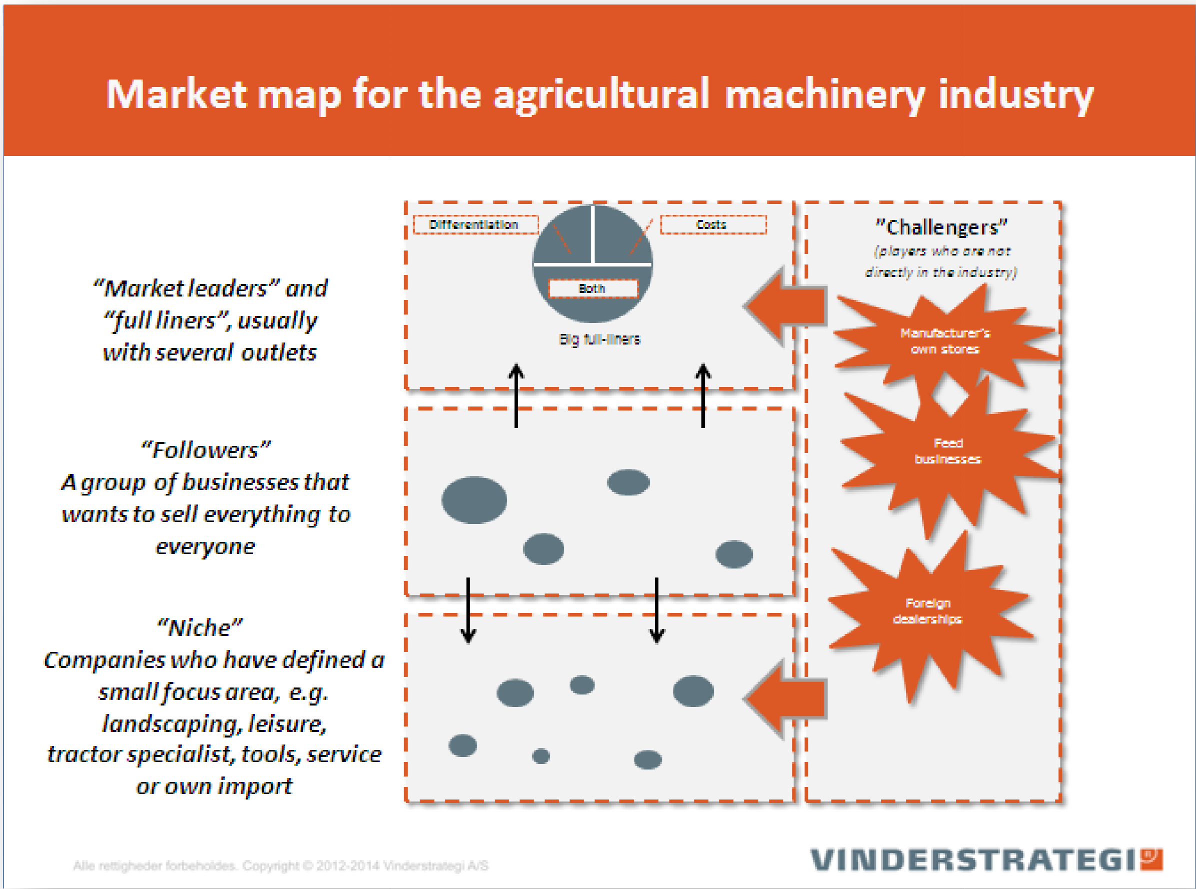


Figure 4: Market map

The underlying philosophy of the market map is that each machinery dealer must define their position as either being a market leader (big and with a considerable critical mass) or being a niche business with a narrow focus (could be big or small). If the company wants to be a market leader, this could be expressed in three different ways. Basically, the company can either be a leader when it comes to differentiating itself from other competitors or it could be a market leader in selling their products at the lowest cost. The third way is a combination of these two options.

Those who have decided to be neither a market leader nor a niche player are regarded as being somewhere in the middle and we call them "Followers".

In addition to these three groupings, we have another group that we call “Challengers”. These are players who are not currently in the industry but who could benefit from entering the market. Most often, these enter the market as market leaders or niche players.

There are several examples of industries that had a large concentration of “Followers” for a while. The majority of these “Followers” never found their place in the market and no longer exist.

By “critical mass” we are referring to how big we need to be in order to stay competitive and profitable today and tomorrow. It is often about getting bigger. When companies discuss their ideal size, this can be done based on a number of considerations and viewed from various perspectives.

Cost Perspective

Quite often, the company can directly calculate the economic advantages of growing in size, e.g. in the form of optional procurement discounts or new economies of scale. An increased company size may also lead to increased profitability with a number of non-recurrent expenditures. On the other hand, the company needs to realize that increased business can entail new coordination costs.

Business Perspective:

A bigger company will most likely bring new opportunities with regard to certain customer segments, including bigger customers than previously. At the same time, the company could become attractive to a number of key suppliers. Once the company grows, new opportunities arise for investing and developing key competencies. With regard to staff, it will most likely also be easier to retain and attract employees with the proper specialized skills. A larger company typically also means that it starts to be profitable to invest in technology and automation of processes. From a marketing perspective, there are also new opportunities and a greater effect, once a company grows. It is also important to focus on ensuring that the company has the right amount of innovation.

Strategic Perspective:

When determining the ideal size, companies often overlook the fact that the competition might change as well. Some big competitors might start to react, which results in new challenges and it puts margins under pressure. On the other hand, some departments and functions might become profitable when the company grows.

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.

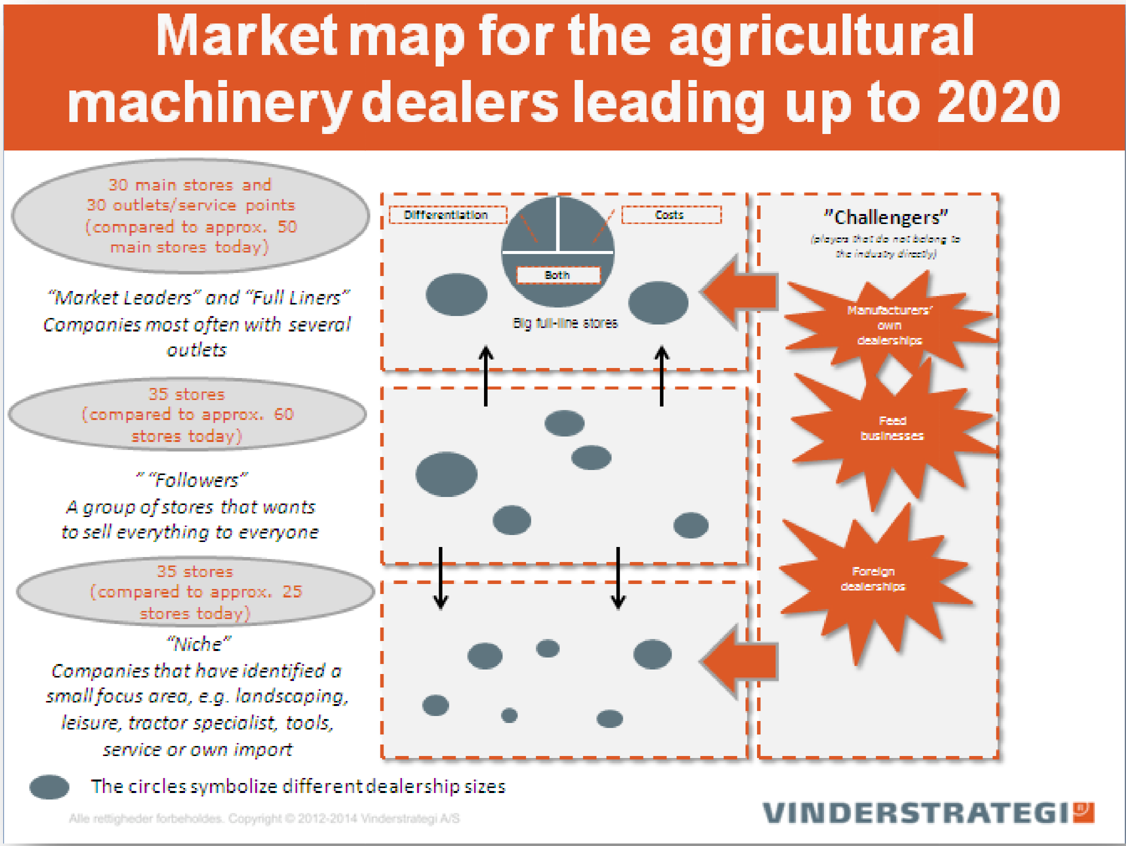


Figure 5: The agricultural machinery industry's number of businesses on the 2020 Market Map—please note: The current number of stores in the three categories is an estimate.

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.

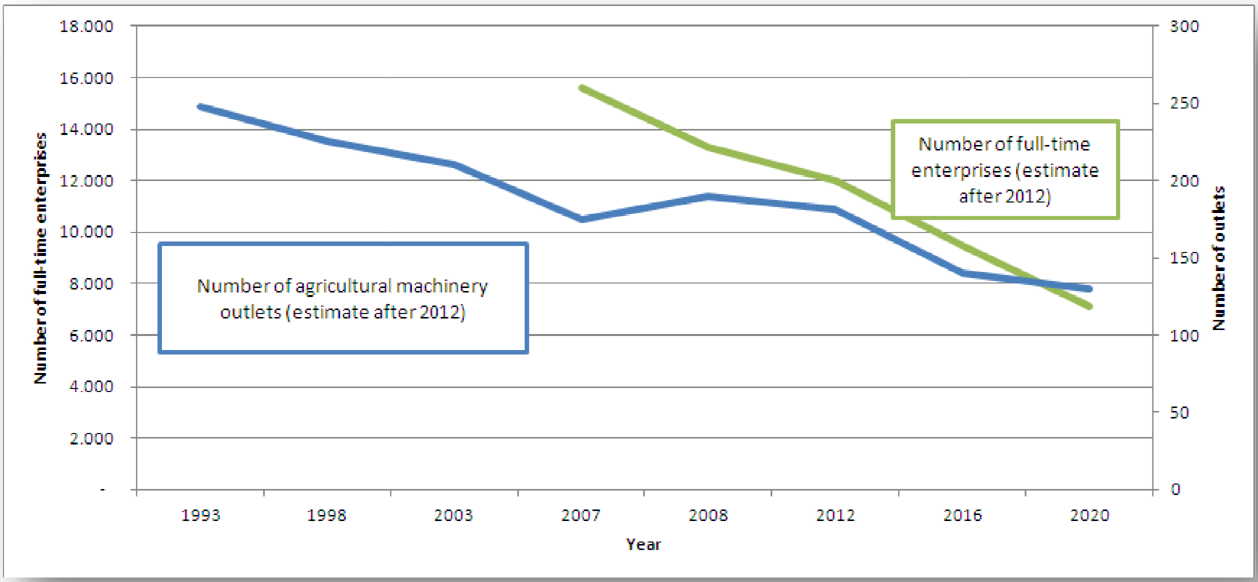
Approximately 35 agricultural machinery dealers have chosen a spot in the "Followers" category. This is where you more or less choose to sell anything to all customer segments. With a good business model, the most successful businesses in this category will most likely be able to generate a reasonable 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.

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.



Source: DM and Vinderstrategi A/S

Recommendation: Focus on Generational Change

The figure below shows the birth year of the current DM business owners. Based on this, we can deduct that 60 companies are managed by someone, who is at least 58 years old. Further along on the graph, we can see that management in 93 businesses is at least 53 years old.

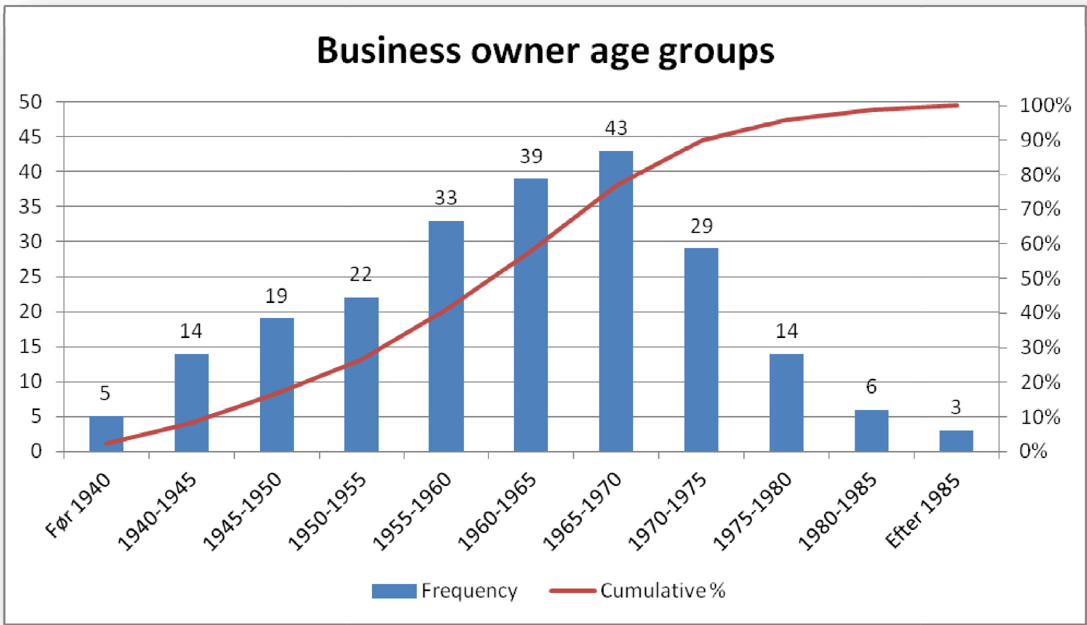


Figure 6: Business owner age groups

We therefore assume that approximately half of all agricultural machinery dealers will need to undergo a generational change within the next few years.

Naturally, this poses the question if these companies are ready for this? Are there plans for who will be taking over, how it will happen and at what price? Unfortunately, the list might already end at the first question for many, as it is unclear who can and will take over.

Another question is, whether the companies with the youngest management also are ready for this situation?

In the previous sections, we looked at how the number of machinery dealers has remained more or less the same, despite changes in the composition of customers and the trend toward large-scale businesses.

Perhaps the immediate future will change this substantially, cf. the age group of most agricultural machinery dealers.

The companies that will need to undergo a generational change run a high risk of losing their values if they don't work targeted and focused on the generational change.

As it stands now, the "Buying Field"[2] is limited. Let us take a look at the types of buyers that are normally associated with a generational change in other industries and comment on their relevance:

Buying Field	Comments
Members of management other than owners	There are rarely managers other than the owner. If there are other managers, however, will they be able to raise the necessary financing and are they ready to take the risk?
Other machinery dealers who sell the same brand	Is it possible to get the acceptance of the brands and can they finance the purchase?
Competitors	Is it possible to work with several brands at the same time?
Individuals who wish to buy part of the business	Is it realistic that they would choose this specific industry, cf. previous sections about the industry's attractiveness and earnings potential?
Investment companies and private equity funds	What should the motive be when there are a number of obvious circumstances that make it a difficult industry?
Family members	What should be the driving force in the future when traditions change and the focus is more on personal preferences?

It is therefore crucial that each agricultural machinery dealer focus on generational change.

As an inspiration, here is a list of what the "buying field" typically will focus on:

External Strategic Factors	Internal Strategic Factors
Strategy	Management and organizational circumstances (self-propelled or dependent on key individuals?)
Growth potential (turnover and earnings)	(Core)competencies

[2] A "Buying field" is an expression used in connection with the structured sale of a business

Industry's attractiveness and earnings potential	Structure and processes
Possible scaling (expansion of business)	Complexity (composition of value chain)
Risk factors	Critical mass
Capital intensity and cash flow	…

At the same time, please note that it is possible for each business to work specifically with the internal strategic factors.

With regard to growth potential and finances, under external strategic factors, each business can pay particular attention to:

- Growth in turnover
- Growth in earnings
- The development of the working capital

These three factors are the most crucial when estimating the value of the company.

It is therefore recommended that each machinery dealer pursue opportunities in the buying field and optimize internal and external strategic factors along the way, so that the company appears as attractive as possible.

Recommendation: Choose a Chain Operation or a Single Outlet

An overview from the Danish Agricultural Machinery Dealers shows that 36 members of DM run a total of 55 outlets in addition to the main store.
We rarely see actual "chain operations" and the average number of outlets for the 36 members is 1.5 outlets.

Number of Members	Number of Outlets	Total Number of Outlets
99	0	0
21	1	21
12	2	24
2	3	6
1	4	4
		55

Figure 7: Number of members and outlets

There is a risk that running an outlet is generally cost-intensive and that the benefits of large-scale operations have yet to be realized.

Agricultural machinery dealers who run outlets should define clearly which tasks should be carried out in the outlet and which should be carried out in the main store.

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):

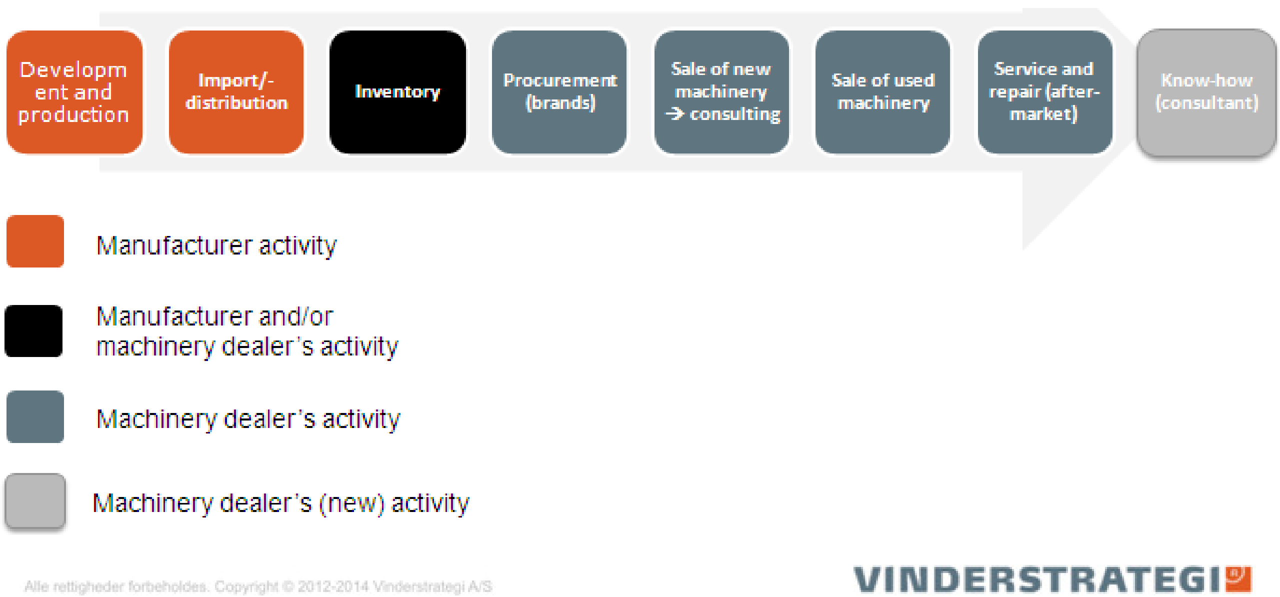
Sales	Service	Parts	Customer Understanding	Daily Reporting (tasks and hours)	Manage and Distribute Work among Staff
Marketing	Export sales	Strategy	Customer training	Supplier bargaining	Invoicing
Payroll	Vehicle fleet	Account-ing	Collections	Advertising and marketing	Hiring and adaptation of staff
Accounts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

Figure 8: General tasks for the collective concept

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

The typical value chain for agricultural machinery dealers is:



Source: Vinderstrategi A/S and DM

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.

Inventory

- 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.

Procurement (brands)

- 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

Sale of new machinery → consulting

- 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 machinery

- 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

Service and repair (after-market)

- 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

Know-how (consultant)

- 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.

Photo: ndhtxtfoto/DM

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.

The Biggest Challenges—Grouped (example)

Finally, we have collaborated with the think tank and grouped the biggest strategic challenges into four groups:

- Strategy and business model
- Finances
- Competencies
- Suppliers

Main Areas	Challenges
Strategy and business model	1. Forward-looking strategy—particularly the need to create a profitable business model 2. Less differentiation in the market where everyone looks the same 3. Complexity in the composition of each store 4. The need for volume and critical mass 5. Frozen market regarding mergers, acquisitions and generational change 6. Risk of big, new competitors entering the market
Finances	7. General financial situation with regard to earnings, solvency and financing 8. Large inventory of used products
Competencies	9. Forward-looking need for highly educated staff, team development and ensuring that the proper resources are available 10. Insight into new technologies 11. Improved customer service and understanding of customers 12. Owners' leadership skills and the need to think more in terms of "from machinery dealer to group managing

	director" 13. The increasing number of big customers add competition and reduces earnings while increasing the demand for knowledge-intensive services
Suppliers	14. Changes and higher demands of brands, such as John Deere's "Dealer of Tomorrow" 15. Reduce the dependency on others and increase other people's dependency on self 16. Importers and manufacturers' bargaining power

Figure 9: Grouped strategic challenges

How to Handle Must-win Battles (example)

We suggest listing a number of must-win battles that you need to win in order to tackle the challenges. See examples below:

Main Areas	Must-win Battles
Strategy and business model	We create a business that is properly positioned based on company size and potential and that is profitable due to its simplicity.
Finances	We run a business where return is commensurate with applied resources and risks, and where there is a constant focus on reducing the working capital (used products)
Competencies	We focus on and invest in developing the relevant competencies that match the needs of our stakeholders
Suppliers	We select and collaborate with the suppliers that best match our company and reduce our dependency

Figure 10: Strategic challenges handled as must-win battles

Conclusion

The first part of the report shows that the industry is facing a number of challenges that need to be solved. In this section, we paid particular attention to the most important strategic challenges with a main focus on the issues that each agricultural machinery dealer should consider—especially with regard to the industry's attractiveness and earnings potential and the dominance of the brands.

In the following, we have summarized these recommendations (recommended considerations) for each agricultural machinery dealer:

- Collaborate with the brands that best suit your business and the future capacity of the business. Or form a different kind of partnership, e.g. become an outlet for a bigger dealership, etc.
- Define whom the business wants to serve and whose needs it wishes to meet
- Pursue the idea of becoming either a market leader or finding a niche
- Pursue the possibilities within the buying field and optimize internal and external strategic factors along the way, so that the business appears as attractive as possible
- Run a business with either a main store or as a chain with a clear, precise distribution of tasks
- Identify the areas in which the business can become better and cheaper compared to other suppliers with a view to a specific customer group

For further consideration and to make it easier to follow our recommendations, the following pages will introduce a number of tools that can be applied in the continued strategic work.

SMALL AGRICULTURAL MACHINERY DEALERS (turnover below USD 5.3 million)

Approximately 50 stores in DM's membership circle fall into this category. Basically, the strength of small dealerships is the fact that the business has low, fixed costs and the owner knows a little bit about everything. The owner often has good customer relations in the local area and provides very good service. Customer satisfaction is probably great and customer loyalty in the local area is high as well.

The owner is often "a self-made blacksmith" type of guy and is motivated by the joy of being his own boss, the pride in having created something, prestige in the family and making a decent living every year.

Many of these types of businesses try to sell everything to everyone (the follower type—see the Market Map for Agricultural Machinery Dealers) and often sell a new tractor to a farmer in the morning and a small lawnmower to a schoolteacher in the afternoon.

The owner himself is often involved in all functions of the business, from sales to service, parts, marketing, human resources, etc.

This group of stores makes up approx. 10% of the industry's total turnover and had a bottom line result (2011) of approx. 0.8% of turnover before taxes. The best in the group (approx. 20%) came out with a bottom-line result of over 3% of the turnover before taxes.

Many of these types of businesses will face a great challenge leading up to 2020 when it comes to generational change. Who wants to take over the business and how can they generate a profit when the current owner needs to get his return and equity out of the business?

Will the current suppliers stay on when a new owner with less equity takes over and can a new owner increase sales with a view to financing used inventory—those are some of the challenges that will come up.

What are the options for this type of business leading up to 2020?

Consolidate Upward

Sell the business or become a co-owner of a bigger main store and move up during the consolidation stage (see Market Map for Agricultural Machinery Dealers).

The owner is often able to stay on in the business as a kind of branch manager and can now pass many functions, such as marketing, HR, complaints, finances, etc. on to the main store.

Collaborate with Large Machinery Dealers

Another option could be to specialize in service, perhaps collaborate with a larger brand dealer and thereby move downward (see Market Map for Agricultural Machinery Dealers) toward a niche area.

The advantage is often that the business can stay focused on an area and become really good at providing service and maintenance. The business may strengthen the earnings by moving away from the pressure of selling new tractors and machinery, often with no or little profit and a big risk related to handling and tied-up capital associated with used inventory.

Perhaps we could call this the industry's "Tractor Specialist" or "Service Partner".

Find a Niche

Could the business find a niche outside agriculture that could be cultivated into a sustainable business model, e.g. landscaping, industrial service or construction and groundskeeping?

The alternative would be to leave the current business model behind with sales of everything to everyone and to find one or two niches within tools and machinery and gain a larger area and volume in order to maintain a strong service concept and sales skills (become really strong within a few products).

Collaborate with Several Small Businesses

A fourth option could be to enter into a strategic partnership with a group of colleagues, perhaps within the same brand, which could bring about more competitiveness by consolidating some functions, such as finances, parts, sales and marketing, joint on-call service schemes and HR.

Photo: ndhtxtfoto

MEDIUM-SIZED AGRICULTURAL MACHINERY DEALERS (turnover between USD 5.3 and 15.8 million)

Approximately 50 of DM's membership companies fall into this category. Many of these types of stores are also trying to sell everything to everyone (the follower type—see Market Map for Agricultural Machinery Dealers).

In these types of stores, the owner is also often involved in all functions of the business, from sales to service, parts, marketing, HR, etc.

This group of stores accounts for approx. 30% of the industry's total turnover and had a bottom-line result (2011) of approx. 1.4% of the turnover before taxes. A very small group in this category had a bottom-line result of over 3% of their turnover before taxes.

Many medium-sized stores are brand dealers as well and more or less full-line agricultural machinery dealers within tractors and combines.

They are currently experiencing, and will continue to do so leading up to 2020, that manufacturers or importers are making greater demands on sales, service and pre-ordering rather than pre-selling of new machinery, etc.

Distributors continue to demand big investments in service machinery, inventories and training. This will require solid finances, where an increasing proportion of the store's earnings comes from the distributor's bonus schemes that are aimed at increasing business focus on the manufacturer's particular product range. The costs for training in sales and service alone will require a certain volume in order to ensure a reasonable income in the future.

For many stores, the requirement to focus on the main supplier's products, will take the focus away from the smaller suppliers in the store.

Many of these types of businesses will continue to face a great challenge leading up to 2020 when it comes to generational change. Who wants to take over the business and how can they generate a profit when the current owner needs to get his return and equity out of the business?

Will the current suppliers stay on when a new owner with less equity takes over and can a new owner increase sales with a view to financing used inventory—those are some of the challenges that will come up.

Basically, many businesses in this category will be forced to choose between two alternatives—to grow or to give up the authorized sale of a top brand and pursue some of the options that small agricultural machinery dealers have—or finding a niche.

What are the options for this type of business leading up to 2020?

Consolidate Upward or Merge

Sell the business or become a co-owner of a bigger main store and move up during the consolidation stage (see Market Map for Agricultural Machinery Dealers).

The owner can often stay on in the business as a kind of branch manager and can now pass many functions, such as marketing, HR, complaints, finances, etc. on to the main store.

Find a Niche within Agriculture

Another option could be to specialize in a small product range, e.g. tractor specialist, field machinery, specialist in used tractors and machinery, export, etc. Some businesses could probably also utilize their competencies to get an agency onboard with products that could be sold throughout the country and directly to end users (see Market Map for Agricultural Machinery Dealers) and thereby move downward toward a niche area.

Find a Niche Outside Agriculture

Could the business find a niche outside agriculture that could be cultivated into a sustainable business model, e.g. landscaping, industrial service, construction and groundskeeping, forestry and nature preservation or public institutions?

Strategic Collaboration in a Group

A fourth option could be to enter into a strategic collaboration with a group of colleagues, perhaps within the same brand, which could bring about increased competitiveness by consolidating functions, such as finances, parts, sales and marketing, joint on-call service schemes and HR.

Acquisition

Another strategy would be to grow through acquisitions so as to increase the market area of the business and gain sales strength. This could improve bargaining powers with suppliers and, in particular, establish specialist functions, such as service and sales, within the business.

Alternatively, two or three stores could enter into a partnership and create a bigger business unit and thereby achieve full synergy by consolidating a number of functions into a centrally located unit, such as finances, marketing, after-market functions and management.

A big obstacle for the success of this strategy is often "chemistry" and management power among several owners and different business cultures.

Photo: DM/ndhtxtfoto

BIG AGRICULTURAL MACHINERY DEALERS (turnover over USD 15.8 million)

Approximately 30 of DM's membership companies fall into this category.

This group of stores accounts for approx. 60% of the industry's total turnover and had a bottom-line result (2011) of approx. 2% of the turnover before taxes. A very small group in this category (approx. 20%) had a bottom-line result of over 3% of their turnover before taxes.

Many of these stores are brand dealers and are more or less full-line machinery dealers within tractors and combines.

They are currently experiencing, and will continue to do so leading up to 2020, that manufacturers or importers are making greater demands of sales, service and pre-ordering of new machinery, etc.

Most likely, they will be taking on more and more of the tasks and responsibilities from the importers or the sales company.

Many will probably become a type of area importer while the manufacturer optimizes the value chain in the distribution chain.

It will continue to require big investments in service machinery, inventories and training. This will require solid finances, where an increasing proportion of the store's earnings comes from the distributor's bonus schemes that are aimed at increasing business focus on the manufacturer's particular product range.

Owners of these types of stores often used to be involved in business functions, such as sales, service, parts, marketing, HR, etc.

Many of these types of businesses will continue to face a great challenge leading up to 2020 when it comes to generational change. Who can take over these large businesses that will require a lot of capital—will it be the manufacturer, who goes into retail to ensure a sales channel to the end user or a private equity fund, who sees the potential in developing the business or the entire market through additional acquisitions in order to consolidate upward once again?

The demand for a focus on the main supplier's products will often take away the focus from smaller suppliers in the store.

There might be great changes to the market place that will affect large, non-full-line suppliers, who will simply be forced out of business due to a lack of sales capacity.

They will therefore have to look downward in order to find a smaller business in the area, either through a niche business or by finding a place on the shelf in a follower store that wants to sell everything to everyone.

What are the options for this type of business leading up to 2020?

Focus on Performance Optimization

Many will have to work on optimizing the performance of the big store leading up to 2020—undoubtedly there are still plenty of options for reducing costs and remaining focused on continuous improvement and competitiveness.

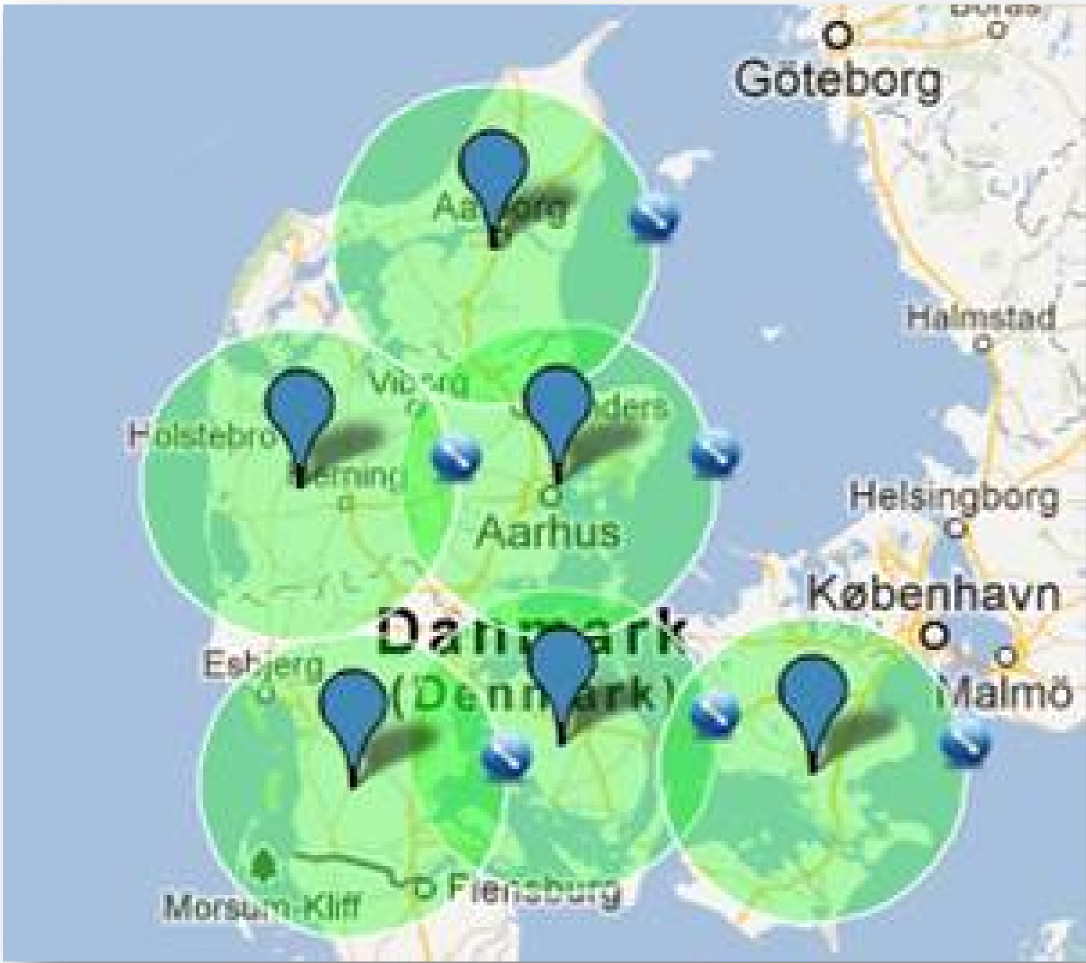
It will also be a big challenge to keep focus on close customer relations from a great distance and to develop service concepts that offer unique competitive advantages over competitors.

In order to develop efficient operations, many will have to focus much more on consolidating inventory, administration, service and sales and start to focus on centralizing the sale of used machinery, export sales, procurement and creating specialist functions. Large agricultural machinery dealers also have the best opportunities for entering into partnerships with financing companies and other big suppliers. Finally, merely due to their size, large machinery dealers can enter into attractive purchasing agreements and create their own customized models and promotional offers.

These businesses will probably have to separate the sale of used and new machinery through their staff—some might find a viable business model by establishing outlets for used tractors and machinery in Denmark or abroad.

The big brands will most likely use two variables as a starting point when composing the Denmark map—distance and total markets, e.g. 400 tractors per store in the market area, etc.—so that a business is set up to sell new tractors at a rate of 50–80 units per year.

Example of what a market map might look like for one of the big brands in 2020:



Source: DM

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).

Consolidate Upward

In the group of large machinery dealers, there is most likely a small number of stores that have the option of consolidating upward by consolidating through acquisitions or mergers and/or developing an actual chain of outlets.

These opportunities will often arise when the importer or the manufacturer wishes to optimize an area or a region and turn it into one big unit.

Once again, the aim is to consolidate these units inward, to centralize obvious functions and to quickly reduce costs and gain a powerful competitiveness toward the market.

It would be a good idea to allocate regions so as to avoid competition or channeling within your brand and instead use your resources to compete against the real competitor of a different brand.

Take Over the Import Function

A group within the large machinery dealer category could consolidate within their own brands leading up to 2020 and thereby take over the import function 100% in Denmark.

This would require capital and management, which would probably involve outside capital and investors, who would demand a professional management and a board of directors.

Global Development Strategy

A number of companies in this group might also have the courage and management power to come up with a more global strategy to ensure commercial potential abroad and, in particular, to utilize a successful business model for sales, service and parts abroad.

Could you imagine a large Danish agricultural machinery dealer buying into or merging with a foreign company in Eastern Europe? YES, why not?

Perhaps the business model here could be to create competitive advantages in the home market through an effective channel for export of used tractors and agricultural machines from Denmark.

Distance Management

Most likely, a number of businesses simply cannot be sold in the years leading up to 2020, merely due to a lack of earnings and the economic crisis in society.

Owners will probably retire from daily operations due to age and manage the business as chairman of the board and hire a professional managing director to handle the daily operations.

Overview of Options

Source: DM

PART 2—STRATEGY AND TOOLS

Purpose

The purpose of this section is to offer inspiration for the strategic work by presenting a number of relevant tools[3].

Please note that this should not be regarded as an exhaustive description, but rather a recommendation or considerations for strengthening and/or supplementing the current strategic work of the company.

The tools are listed in the order, in which it is recommended that you work with them. The tools can be applied individually.

Face reality as it is, not as it was or as you wish it to be."
(Jack Welsch, GE)

Strategy—and the Common Theme

Strategy is defined as:

The road to the goal …
… through a pattern of actions that create competitiveness and added value

As a starting point, we recommend dividing the company's strategic work into three stages:

- **Stage 1:** Strategic analysis and situation description as well as determining the need for change (present)
- **Stage 2:** Strategic intentions and formulation of vision, mission and values (future)
- **Stage 3:** Strategic impact where a plan to close the gap between the present and the future is developed and implemented

It is our experience that the best result for a Winning Strategy (vinderstrategi®) is achieved when work is structured in this way.

A Winning Strategy (vinderstrategi®) is not successful until you achieve the results you want. Once the results are achieved, we call it a Winning Company (vindervirksomhed®).

[3] Tools refer to a number of models, questionnaires or anything else that can support the strategic work.

Figure 11: Strategic work divided into three stages

The definitions of a Winning Strategy (vinderstrategi®) and a Winning Business (vindervirksomhed®) are explained below:

Figure 12: Definition of strategy, winning strategy and winning business

The Common Theme of the Strategic Work

If you wish to further explore the three stages, we recommend the following sub-elements[4]:

[4] We recommend reading the book "Strategi i vindervirksomheder" (Strategy of Winning Businesses), from which some of this material was taken.

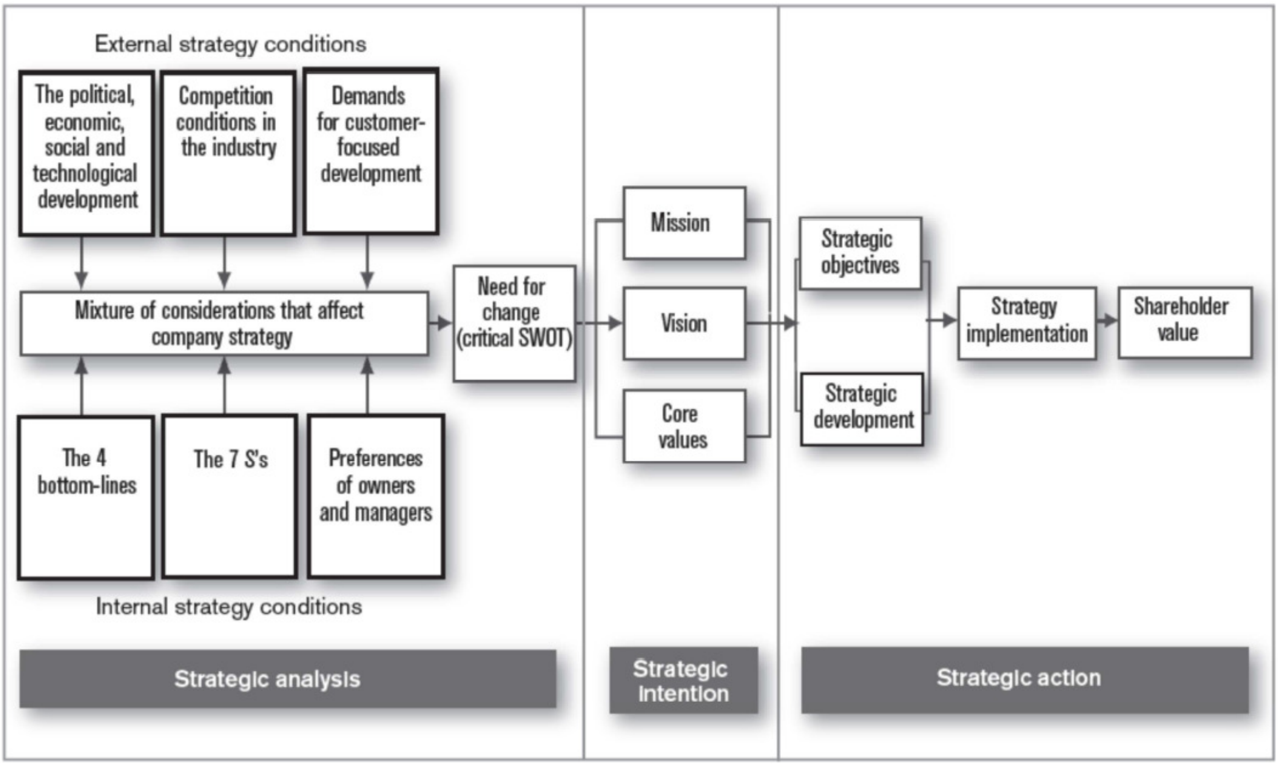


Figure 13: Strategy—the common theme

The common theme of the strategic work contains a combination of market perspective and resource perspective and thus several sub-elements. The market perspective is contained in the analysis of external strategic factors, i.e. an outside-in perspective with a focus on the outside world, identification of market opportunities and competition and great market knowledge about the demands for customer-oriented development. The resource perspective is contained in the analysis of internal strategic factors i.e. an inside-out perspective. Thereby, the company can adjust to changes in the outside world and pursue market opportunities and adjust its own resources and develop the competency-based competitive advantage.

By following the common theme, a thorough analysis and action-oriented development of the company's strategy will promote the ability to fulfill the company's strategic intentions and goals and, ultimately, add value for the owners.

When Do We Have a Winning Strategy (vinderstrategi®)?

A good way to test if a company has a Winning Strategy (vinderstrategi®) is to ask the questions:

1. What will the company look like in three years?
2. What initiatives are necessary to get there?
3. What is the company really good at?
4. What strategic deselections is the company ready to make?

If you are able to answer all four questions spontaneously, i.e. if all managers have the same answers—it is our experience that the company is well on its way to becoming a Winning Company (vindervirksomhed®).

However, most often, that is not the case.

The Five Forces Model

This tool[5] is an industrial analysis aimed at analyzing and evaluating an industry's attractiveness and dynamic. The tool is an important element in the analysis of the company's external strategic factors and can be used to identify how attractive the industry is as well as its earnings potential. The evaluation of these conditions forms the basis for determining, which competitive strategy the company should choose.

Figure 14: The Industry's attractiveness and earnings potential

In order to apply the tool, each of the five market forces is analyzed based on the current market situation. This is done by analyzing the threat from new competitors and substitute products, by analyzing the company's bargaining power and dependence on suppliers and customers and thereby analyzing and evaluating the internal rivalry within the industry. The analysis of the five market forces prompts the following general questions:

- How is the existing competitive rivalry between suppliers in the industry?
- What is the threat of new market entrants?
- What is the threat of substitute products?
- How is the bargaining power of buyers?
- How is the bargaining power of suppliers?

For each of the five market forces, an evaluation is given of the company's situation within the industry. A scale of 1–5 is used where "1" indicates a favorable situation and "5" indicates an unfavorable situation.

A low total score indicates a favorable situation for the company—which is characterized by weak competition and subsequent attractive earnings potential. On the other hand, a high total score indicates an unfavorable situation for the company, which is characterized by strong competition and low earnings potential.

Competition Overview

The competition overview describes the company's competitors and how these are positioned in the strategic landscape compared to the company. This overview is an important element in the analysis of the company's external strategic factors and helps the

[5] Originally developed by Michael Porter: "Competitive Strategy", Harvard Business School Press, 1980

company understand how they can differentiate themselves or whether there is a need for differentiation.

The overview describes various competitors based on applicable parameters that are crucial to the company.

- Who are our competitors?
- What are we competing on?

Below is an example

	Relations	Brands	Product range	Creditworthiness	Manage-ment	Total Score	Other
Winning company®	2	2	2	1	4	11	
Competitor a	4	4	4	3	2	17	
Competitor b	4	4	4	3	1	16	
Competitor c	2	1	2	3	4	12	
Competitor d	2	?	1	4	4	11+	
Competitor e	1	1	1	?	4	7+	

Explanation and instructions for use:

- *Relations refer to ....*
- *Brands refer to ...*
- *Production range refers to ...*
- *Creditworthiness refers to ...*
- *Management refers to ...*
- *Other refers to ...*

Figure 15: Example of competition overview

In order to apply the tool, the company must start by identifying its close competitors. Subsequently, the company needs to identify some parameters that play a role for the competition and which they can use to evaluate individual competitors, e.g. product range, reputation, size, management and the like. Based on these parameters, each competitor and the company itself are evaluated on a scale from 1–5. Hence, the relative strengths and weaknesses of the company and its competitors are identified.

Demands of Customer-driven Development

This tool aims to bring about a better understanding of the company's customers and the relationship with these customers. The tool focuses on clarifying any developments on the customer side, how the customers are included in the development and what this means for the company. This is an important element in the analysis of the company's external strategic factors as it creates a good insight into the customers' needs, expectations and wishes and helps identify options, threats and initiatives that could add value.

The answers to these questions can be found by interviewing customers (happy and unhappy), and by observing and interviewing non-customers. The gathered information is analyzed and, based on that, the company can draw a general conclusion regarding the company's opportunities and threats.

Below are a few sample questions.

Questions	Answers
How do the current products and services meet the customers' needs, wishes and demands?	
What are the future needs of the customers?	
What are some of the important qualities of the product or the service?	
What do customers mean by quality?	
How are the products and services perceived by the customers compared to those of the competitors?	
Describe the organization's responsiveness to customer needs	
How are the customers involved in the company's development?	
How can we ensure a uniform application of sales tools and other tools?	

Figure 16: Questions related to customer-driven development

The 7S Model

The 7S model is applied in order to work with the company's internal strategic conditions. This tool is aimed at covering all internal strategic factors and visualizing the correlations between the following seven factors:

Hard Factors:

- <u>Strategy:</u> strategy chosen to increase competiveness
- <u>Structure:</u> organizational structure

- Systems: procedures that help the company work and function

Soft Factors:

- Skills: internal resources, skills and capacities
- Staff: staff that needs to be hired, trained and motivated
- Style: leadership style
- Shared values: core company values

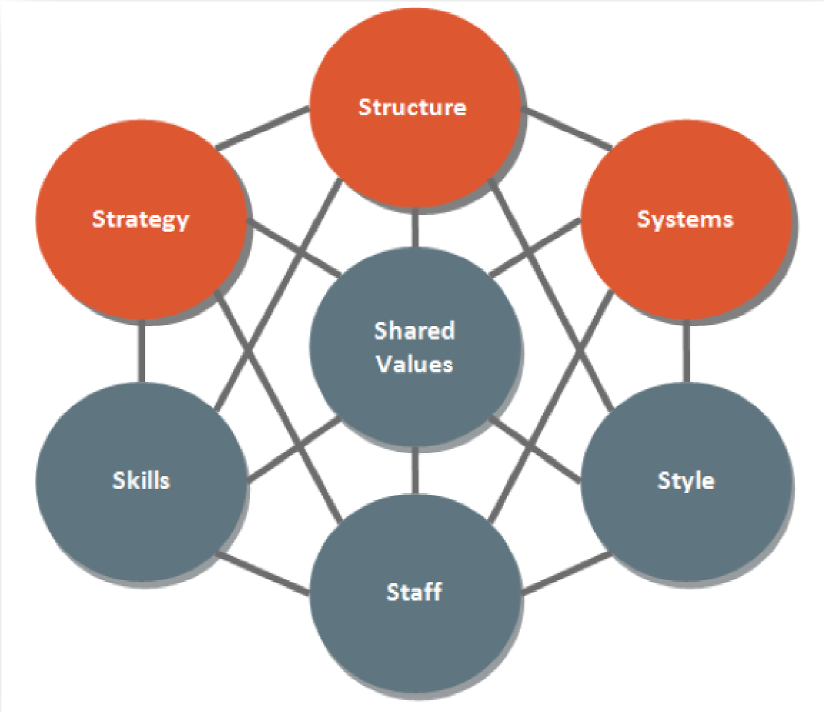


Figure 17: The 7S Model

The strength of the tool is to illustrate strategy as a coherent package. The tool deals with soft (grey) as well as hard (orange) factors, where each factor is given the same degree of importance and contributes to the company's internal strategic factors as a whole.

The tool is used to analyze the composition of the business, and the company's current situation and challenges are analyzed for each strategic factor. This can be done by interviewing the staff and thoroughly analyzing each factor. Based on this, the company's strengths and weaknesses are identified.

Questions that could be used as a starting point:

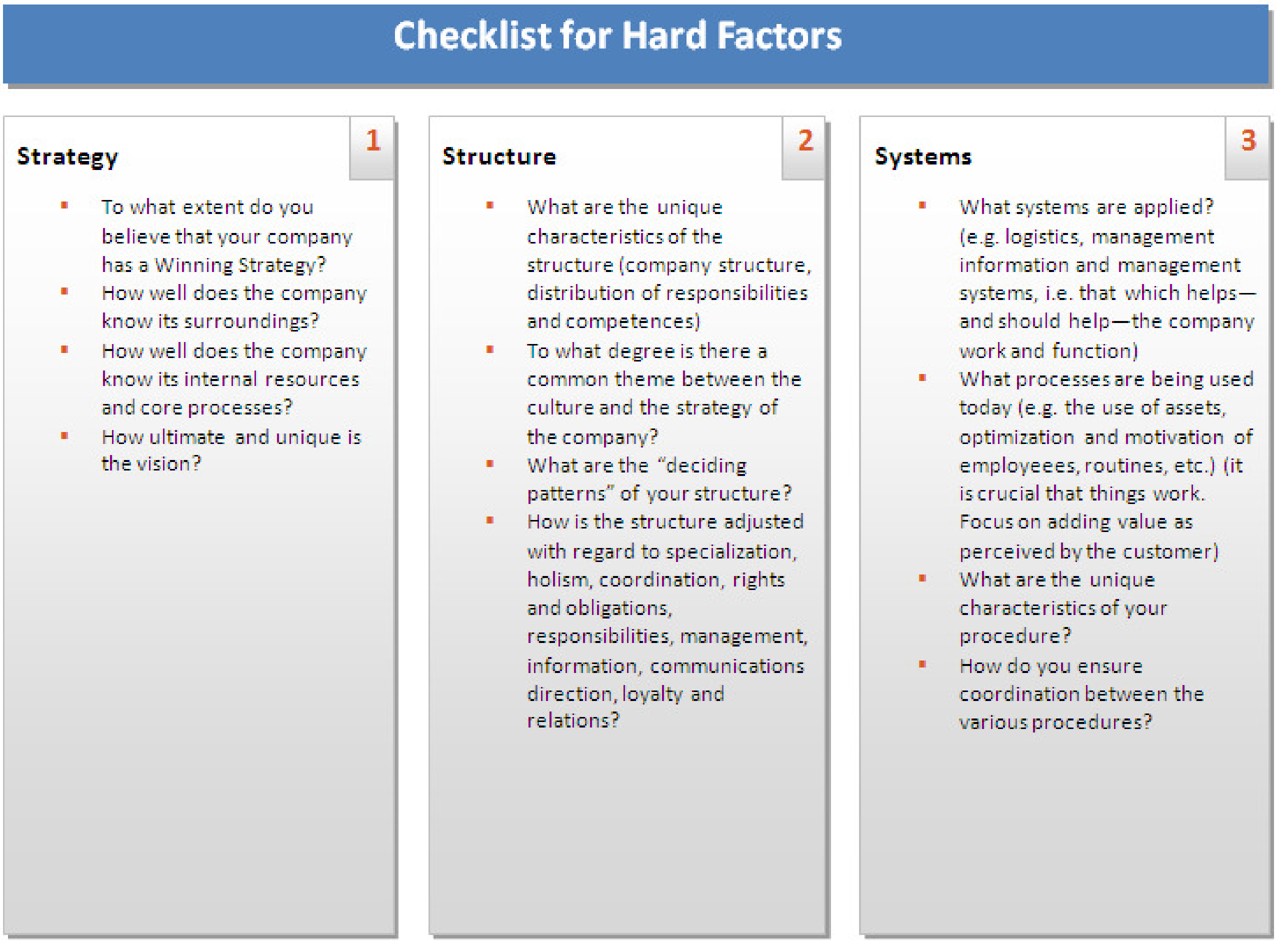


Figure 18: Questions related to the three hard factors

Checklist for Soft Factors

Skills (4)	Staff (5)	Style (6)	Shared Values (7)
▪ Which outstanding abilities does the company have? (business processes, knowledge and leadership that the company practices successfully) ▪ What is your core competency? The company's core competency? (unique, difficult to copy, adds value for the customer) ▪ Describe the value chain for your company—from in-depth logistics to output with the customer ▪ What are some good patterns between the activities of the value chain and where is there a critical interface to other parts of the organization ?	▪ What are the three most important conditions that make the company a good place to work? ▪ What are your three greatest challenges with regard to employee job satisfaction and loyalty?	▪ What are the characteristics of good management in the company? ▪ Describe the dilemma of being the owner and giving up power to a management ▪ What needs and factors need to be fulfilled to feel that it is a good idea to hand over your power to a joint management? ▪ Who are the stakeholders of the company? What are their interests? What activities are necessary in relation to stakeholders?	▪ To what extent is your company culture driven by joint values? ▪ To what extent are these values isolated or compared values? ▪ To what extent are these values an integrated part of all employees? ▪ What do the customers need to experience in order for you to know that your values are at play?

Figure 19: Questions related to the four soft factors

Core Competencies

This tool aims to analyze and bring about an understanding of the company's core competencies and the importance of these for the company. Core competencies are skills, knowledge and technologies covered by the mapping of the company's strategic circumstances.

Definition of a Core Competency
A company's core competencies are the very *combination* of skills, knowledge and technologies that enable the company to offer a certain advantage and value to their customers.

Figure 20: Definition of a core competency

What are the company's core competencies—what is the company particularly good at?
In order to be a core competency, three criteria must be met:

The Requirement of a Core Competency is that the Core Competency must …

Be unique	Be difficult to copy	Add value to customers

Figure 21: Requirements of a core competency

SWOT and Traffic Lights

SWOT is a way of describing the current situation:

1: **S**trengths
2: **W**eaknesses
Internal conditions

3: **O**pportunities
4: **T**hreats
External conditions

Figure 22: Correlation SWOT

When examining the external strategic factors, the most crucial opportunities and threats are deduced (e.g. from five forces, competition overview and customer-driven development) and, based on a review of the internal strategic factors, the most important strengths and weaknesses are deduced (e.g. from 7S and core competencies).

The following page shows a sample SWOT.

Opportunities	Threats
From Five Forces: ▪ … From Competition Overview: ▪ … From Customer Demands: ▪ …	Fra Five Forces: ▪ … From Competition Overview: ▪ … From Customer Demands: ▪ …
Strengths	**Weaknesses**
From 7S: ▪ … From Core Competencies: ▪ …	From 7S: ▪ … From Core Competencies: ▪ …

Figure 23: SWOT—overview

Subsequently, the company's need for change can be divided into three groups, i.e. the so-called traffic lights with green, yellow and red lights.

Red light = an internal weakness combined with an external threat. A red light indicates an acute need for change in order to meet an external threat.

Strength	Weakness
Opportunity	Threat

Yellow light = an internal strength combined with an external threat or an internal weakness combined with an external opportunity. A yellow light indicates a latent need of change.

Strength	Weakness
Opportunity	Threat

Strength	Weakness
Opportunity	Threat

Green light = an internal strength that fits with an external opportunity. A green light indicates an opportunity that should be taken advantage of.

Strength	Weakness
Opportunity	Threat

Positioning

This tool was described in detail earlier in the report. The tool can be applied to a dialog internally in the company to discuss beneficial positioning in the future compared to the current strategic situation.

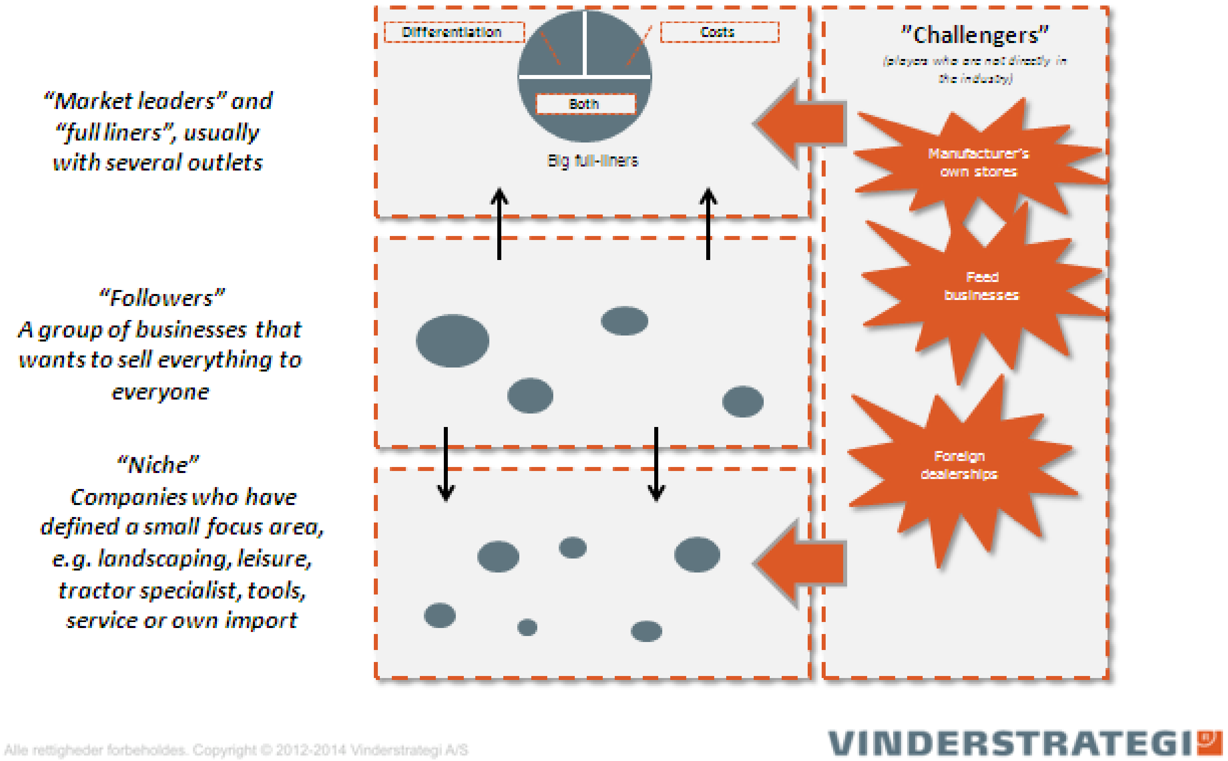


Figure 24: Market map—future positioning

Business Model

The business model tool is a method for describing your business.

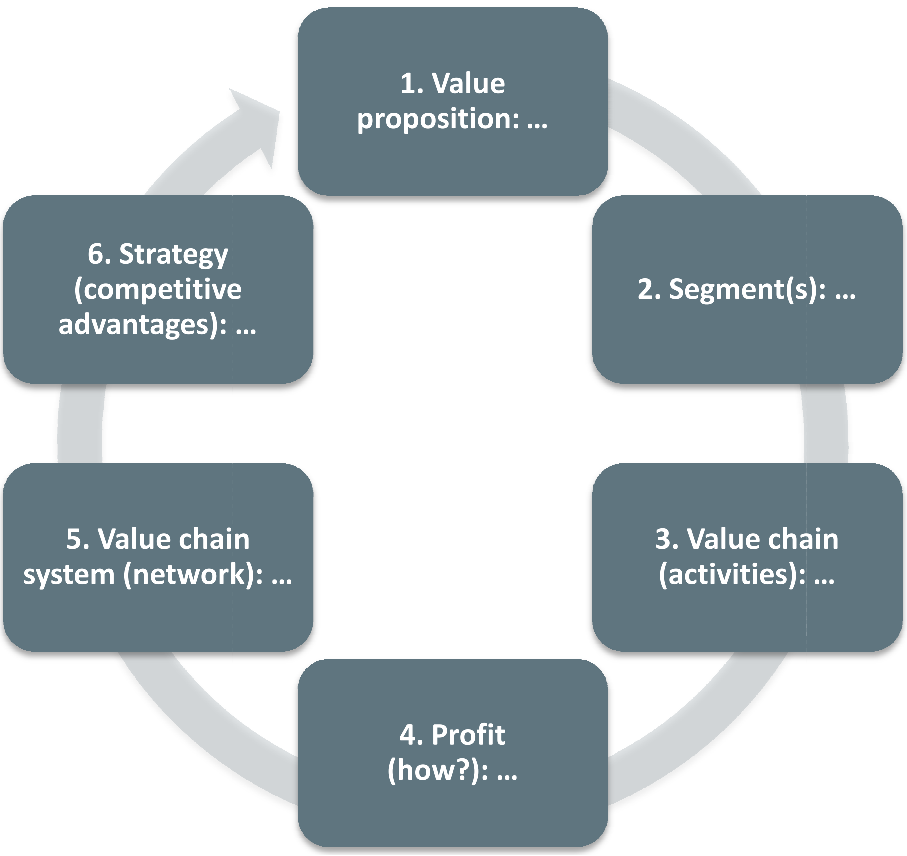


Figure 25: Business model

Examples of questions to be asked in each box:

- What are we offering the customer? (what are our key election issues?)
- What are our prioritized customer segments?
- Which activities do we want to prioritize in the value chain?
- How do we earn our money (distribution of sources of income)?
- Who are our most important collaborators (suppliers and perhaps customers?)
- Where are we making a difference? What do we need to be really good at?

Conclusion

We hope that these tools will serve as a source of inspiration for the continued strategic work and that they will be of great use. Please note that the Association of Danish Agricultural Machinery Dealers has an industry agreement with Vinderstrategi A/S, who is responsible for the tools. Among other things, the agreement allows for preliminary, informal sparring with Vinderstrategi A/S about this.

Please feel free to contact the secretariat for more information.

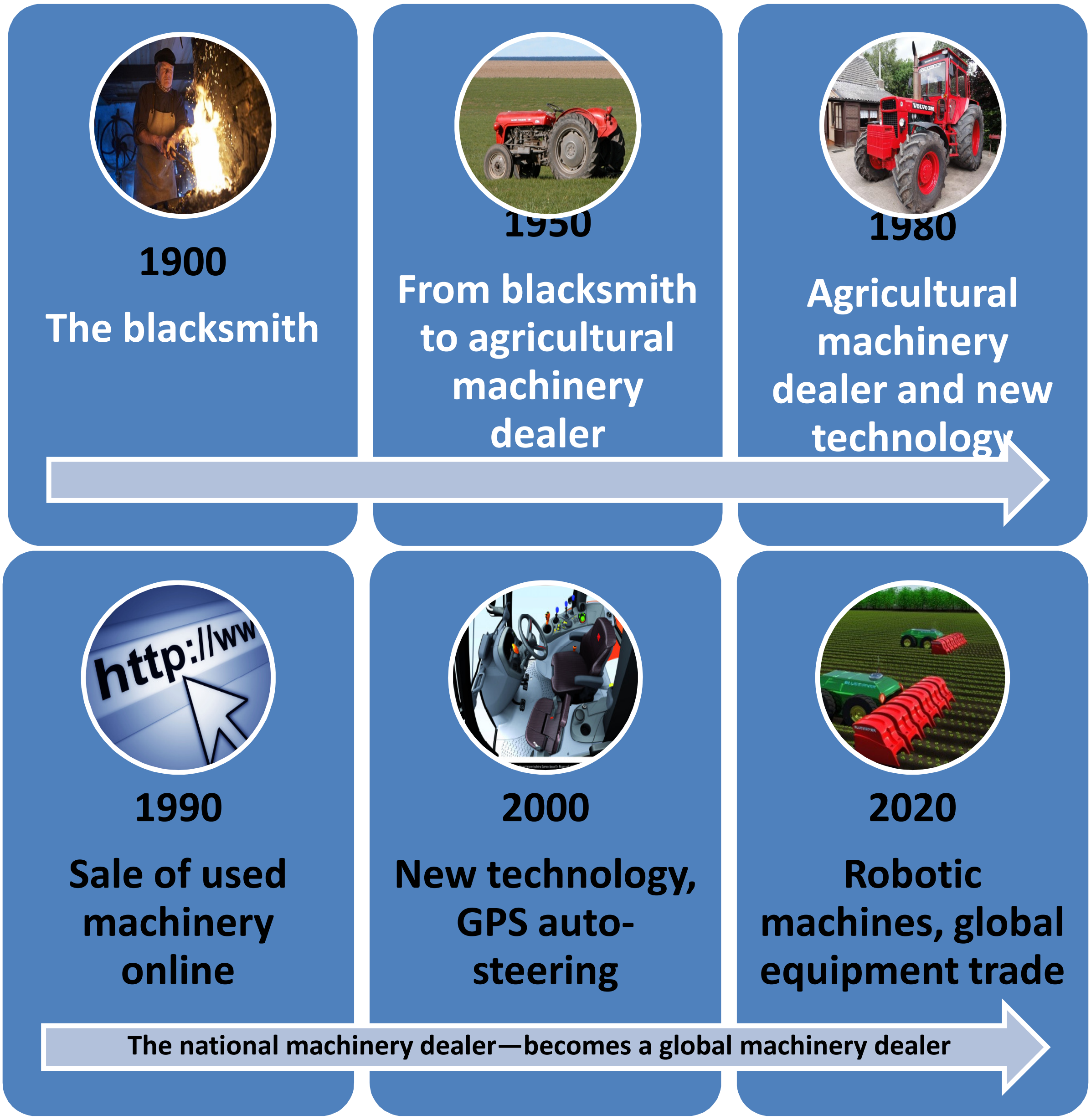
Good luck with your strategic work.

CONCLUSION AND PERSPECTIVE

You can’t think about whether you’re convinced that you’re right—you decide that you are right: That the industry is connected in a certain way and that anyone, who thinks differently, is less informed. And suddenly you realize that you’re an old fool. Without knowing it, you keep repeating your preconceived notions and arguments in an attempt to retain your perception of the industry—BE CAREFUL!

For more than 100 years the agricultural machinery industry has undergone a rapid development and transition. This will continue. The industry and the trades within the industry will change toward a more global view and demands for greater competencies within management, sales, marketing, service and finances.

THE DEVELOPMENT WITHIN THE AGRICULTURAL MACHINERY INDUSTRY 1900–2020



Source: DM

The industry's total revenue in sales, service and parts is expected to grow and there will only be limited changes to employment in the industry among hourly workers. A sizeable reduction is expected among salaried employees in administration, parts and sales.

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)

The industry will most likely be affected by an increasing demand for food and consequently increasing prices on the goods that our agricultural customers need to sell. The world is expected to grow by 70 million new citizens every year leading up to 2020.

As of this writing (April 2013), the Danish Natural and Agricultural Commission, appointed by the Danish government to make recommendations to policy makers in order to strengthen the agricultural economy, the aquatic environment and the climate, has just published a report with numerous positive recommendations that could help the agricultural industry grow by up to USD 8.8 billion and more than 20,000 jobs in Denmark.

This could mean increased production, improved quality and higher earnings. The 44 recommendations include the option of using more fertilizer, better use of biomass, start-up help for young people, additional and improved nature and new technology for new environmental regulations, etc.

Increased agricultural production and earnings would have a positive impact on agricultural machinery dealers' sales of products and services leading up to 2020.

The "Agricultural Machinery Dealers in 2020" report finds a common theme in those recommendations, which, early on during the process, were approved by the members of DM's think tank, i.e. that agricultural machinery dealers will need to consolidate upward or find a niche leading up to 2020.

As a cautious estimate regarding the development of the industry leading up to 2020—(approx. seven years)—we can offer the following scenario.

Approximately 35 agricultural machinery dealers will have found a spot in the "Niche" category. These are specialized in a small product range, e.g. groundskeeping, tools specialist within a limited number of brands, potato machine 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 will have chosen a spot in the "Followers" category. This is where you can 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 agricultural 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. A good estimate could be that these dealers would cover Denmark with six main stores and six outlets or service partners in order to cover the store's peripheral regions.

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.

The machinery and tools suppliers will probably have to come up with new distribution channels—and they will most likely have limited shelf space in the big full-line stores in 2020. They will have to find their distribution in the niche store or in the follower store that aims to sell everything to everyone.

The industry is facing having to solve both structural and operational challenges leading up to 2020.

The structural challenges will include the placement of machinery dealers in Denmark within the same full-line brands. What should the service response time be?

Today, the machinery dealers' stores within the same brand are 30 miles apart. Over the next few years, this will increase to twice the distance—depending on the area's road system and number of farmers.

The machinery dealers that follow the big full-line brands must be willing to pursue the objectives set forth by the manufacturer.

In addition, they must:

- Have the same product range in all their stores
- Post signs and use other store layout that is in line with the manufacturer's requirements
- Strive to become the best by:
    - Possessing industry knowledge
    - Making a profit
    - Having effective, well-known and described work processes
    - Having a good image
    - Providing the customers with the expected service
    - Being able to document great customer satisfaction through customer surveys
    - Meeting the manufacturer's goals for market shares

Furthermore, the following elements will be included:

- The customers must have the option of having parts delivered to their homes
- Service and repair vehicles must be available to carry out repairs at the customer's location
- Modern technology should be used actively as part of customer support
- If the customer surveys show any areas that require improvement, these improvements must be initiated as soon as possible
- The well-known relationship, where the manufacturer and machinery dealer are polar opposites, should be replaced by a close collaboration with "partnership" as a common denominator.

The market for agricultural machinery leading up to 2020 will be characterized by:

- The same or decreasing volume
- Fewer customers
- A demand for improved service
- More advanced technology
- A demand for increased sustainability
- Increasing value of sold units and services
- The industry becoming more interesting as an investment opportunity

The following applies to machinery dealers of the future:

- Service will become the most important factor
- An increased focus on professional service will be required

- Machinery dealers will need strong finances in order to meet the requirements
- A closer collaboration between the manufacturer and the machinery dealer will be a prerequisite

In the future, customers will expect:

- To be able to purchase high-tech products that are easy to use, reliable and comfortable for the users
- High level of machinery productivity, low costs through technological solutions, such as online remote monitoring at many levels, including auto steering, etc.
- To know the operating costs through fixed agreements on purchase, rent or lease, including ongoing service, repair, etc.
- Flexible solutions that include service, training and financing
- Transparent life product cycle, both from an environmental and an economic point of view
- Professional handling of all types of customers, from big professional customers to hobby users
- That communication is adapted to their current needs
- Increased use of IT

At many dealerships, the manager will be a group manager in 2020, more so than an machinery dealer. There will be professional boards of directors and shareholders that will have expectations of management and earnings.

The entire industry is facing big tasks with regard to developing a business model that focuses on earnings. On average, the industry has a combined ratio of 98.5, which means that only USD 0.26 (2011 numbers) was earned for every USD 17.6 that was sold. Even a wrong strategy should not lead to such a poor annual result.

Both earnings on sales and service must be increased. Additionally, it is necessary to reduce the capital tied up in spare parts inventory through collaboration and a more efficient utilization of distribution options.

The industry has a spare parts inventory of almost USD 530 million (gross prices), of which almost USD 105 million is posted as realizable items—the turnover rate is estimated at below 2 on average. The capital costs for financing the spare parts inventories alone substantially decrease the potential earnings for the industry.

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.”

A.
Agricultural machinery dealer A does not think of growth, like the growth that Titan Machinery has experienced. However, he would like to grow along with the general development, so that his business can be part of the future and, perhaps, become attractive as a sale or a partnership.

His goal is a business that is geared toward being acquired by another business for a reasonable price within the next 5–10 years or to be part of a merger and/or strategic alliance. The current model does not work.

In his opinion, a business model with the family as the sole proprietor will not be sustainable in the future. However, the family may very well be included as part of the staff or as part of the ownership circle in a future business.

Therefore, he has no expectations of owning a business like today's business in 2020.

At the same time, it is important to have good finances in today's business and to be 100% in charge and not enter into risky commitments that could lead to a loss of control.

He wants good negotiations that generate a profit. But it doesn't have to come from self-propelled machines, because he realized a long time ago that you cannot serve all segments or sell and service a broad range of machines.

- We pretty much stick to a single brand of tractors and machinery. We have even deselected some types of machinery within this one brand, which we cannot sell enough of, he explains.

Big volume and more outlets that generate a big profit is therefore not a goal that he wants to pursue at any price. He would rather have a smaller, but economically sound business.

The biggest threat right now, however, is if the sale of tractors is lost. That would require restructuring and letting go of staff. It is also a great threat if some of the key staff members leave the business.

Finally, it's a threat if a big, aggressive player enters the natural area of the business.

- I see the future as threatening. But if we can keep the costs down compared to our turnover, it's possible to survive, even with less than we have now, he says.

B.
Agricultural machinery dealer B believes that it is necessary to identify the factors that are the keys to success.

- Many circumstances are the same on both sides of the Atlantic. We are struggling with the same stuff, one of them being the fact that we simply aren't good enough.

- We are good at some things, but in other areas, we forget to use external resources that are competent in some areas that we aren't.

- Hence, it's better to spend money on getting help than trying to do things that you aren't good at, he believes.

The advantage of substantially increasing the size of the business is that it allows room and money for hiring staff that can focus entirely on areas, such as marketing, HR, organization of workflows, etc.

He believes that the current business is too big to be small and too small to be big.

In his experience, specialization brings success—customers acknowledge in-depth specialized knowledge, as they get better products and service.

That is why it will also be necessary to have the courage to advise customers against buying solutions that are not particularly beneficial to them.

If you cannot grow bigger, the only way forward is to specialize within a niche. That is his experience.

But he wants to gain a larger market share in a larger geographical area by selling tractors, combines, hay tools and many other types of machinery.

One option would be to become nationwide by collaborating with other agricultural machinery dealers on specialty products that are either manufactured in your own shop or imported.

- I believe that, if the turnover is index 100 today, we will reach an index of 200 in 2020. But the earnings will probably only be index 125–140 in 2020, he says.

In his opinion, the future looks decent, but there will not be room for as many agricultural machinery dealers as there are today. There will probably only be half as many owners left in 2020, but they will have almost as many outlets as there are now.

- It is my impression that the machinery dealers won't be giving up voluntarily, but rather, will be forced out due to poor finances.

- A lack of options for a generational change will also force many businesses to close down or be bought out by others, he thinks.

C.

Agricultural machinery dealer C believes that the industry's turnover will be the same in 2020 as it is now. Larger machines will be sold, but fewer units to professional farmers, which will result in a smaller after-market.

In order to retain the turnover of the industry at the current level, we need to see a shift toward other product groups within the industry.

- I believe that my own business will have a turnover of index 150 in 2020 compared to index 100 right now, he says.

That is a manageable expansion, which should be obtained by competing against other brands and agricultural machinery dealers with the same brand.

- We personally need to get better and learn to better manage staff qualifications in all areas, i.e. with regard to sales, parts and repair shops, he explains.

The focus should be narrower and, as an owner, it is important to have the courage to delegate to your staff that is willing and able to take responsibility, rather than report on their area on a regular basis. With a 110 per cent focus on your own area of responsibility, it would be much more profitable to be an agricultural machinery dealer than it is today, when too many resources are wasted on being involved in everything.

Furthermore, we need to hire additional salespeople and take on fewer roles than is the case today.

- Our current size means that we either have to grow organically, by merging with others or by acquiring other agricultural machinery dealers.

- Alternatively, you could become a small niche business, he explains.

He is therefore currently contemplating and defining his goals for the future. He is financially strong enough to set the agenda himself—and doesn't want to lose the freedom of being able to do so.

He also sees it as a great challenge to attract qualified staff—both for the warehouse and workshop—if/when the business needs to expand at all levels.

D.

Agricultural machinery dealer D explains that the experience from the trip to the U.S. has changed his perception of future possibilities.

- We need to be strong in the future, because the customers will get big and purchase used machinery for large amounts of money, which needs to be managed financially, he points out.

Titan Machinery was interesting with regard to this, as their company size allows them to gather all staff functions in the head office. This adds value, because it allows the owners and the management to do what they do well.

Expansions can happen through mergers with others—either voluntarily or by force from the main supplier. But it isn't enough to merge with the neighboring business and subsequently own 30%, i.e. have no real influence. You must merge with agricultural machinery dealers that cover a larger geographic area.

- I could imagine all of Denmark gathered under the umbrella of a single machinery dealer with a head office and outlets located at a suitable distance from each other, he says.

That would enable him to be a salaried employee in a large incorporated company with a smaller owner's share. The Titan model is inspiring, but he would only focus on getting big if he can make a good profit at the same time.

Machinery dealer D believes that many of the current, large machinery dealers in Denmark are too small to be big, because they are unable to specialize their staff and have dedicated staff for certain functions.

- The suppliers need to be more ambitious on our behalf and their own. They should also focus more on having financially sound distributors, rather than capturing market shares.

- They should also help us with the stuff that we are not good at. At the same time, our industry needs to realize that we aren't good at everything—and therefore we need to get help from the outside, he says.

The way things are going, he imagines fewer agricultural machinery dealers in 2020.

The family-owned machinery dealers should bring external resources onto their boards—if the industry does not become more professional and manages to adapt in the future, it will end up as a bunch of unorganized mechanics.

The dream is a turnover of at least USD 17.6 million and a profit of USD 880,000. In order to achieve that, employees must be co-responsible for the daily operation and optimization. The industry has good employees, who need to be trained to become even better.

- I'll still be around in 2020, but I won't be satisfied with just being "okay". We need to up the level of ambition and show self-confidence—and then make money on our business.

- At the same time, we also need to create a good everyday life, where people enjoy going to work every morning, he says.

E.

Machinery dealer E expects the industry to have a turnover of USD 1.6–1.7 billion in 2020, compared to today's USD 1.4 billion. Because the world will need much more food for many more people—and in addition, the agricultural industry will need to produce more energy, etc.

But the agricultural industry can only contribute if the politicians provide the framework for it—that is the crux of the problem. Machinery dealer E does believe, however, that the agricultural industry will get the financing it needs in the future. The good farmers will continue, while the farmers with poor results will be forced to close.

The machinery dealers will become stronger in terms of sales of groundskeeping machinery, as they have the products, the service and the experience for this, particularly machinery for professionals, e.g. housing associations etc. The sale of store items, on the other hand, will stagnate or even decrease due to the omnipresent hardware stores.

- I believe that our own stores will cover a larger geographical area in the future. There are many ways to achieve this growth. It can be achieved by merging or by growing organically, where we wait for others to close, he says.

If you merge with others, it will require new, modern buildings. The problem is that existing buildings are not worth very much when they are not used for current purposes. It could be difficult to finance new construction.

- However, I see positive opportunities in the future and will still be in the business ten years from now, he says.

The company's board of directors is spending quite a bit of time thinking about visions for the future and we will lay down the objectives to move the business forward within the next couple of years.

- I don't see myself as part of a big group with over 200 employees. I think 100 is the max in Denmark. But I would like an organization that is big enough to be an in-house service specialist, a specialist in used machinery and harvesting, an RTK specialist and more.

- The current turnover doesn't allow that, he points out.

The sale of one tractor per week is one goal, but all tractor brands feel that they can obtain a market share of 25–30%, which, naturally, is not possible. I hope that the suppliers will be more helpful in the future, for example by lowering their prices and improving financing. This is an area where they really should offer better support. It's expensive to be poor…

- I believe that the tractor suppliers will demand that businesses consolidate within the industry, even if it won't happen the way John Deere did, he says.

He feels that everyone is watching everyone in the industry.

He believes that if his own business has a current turnover index of 100, the index will be 150 in 2020. If current earnings show index 100, an index of 200 is expected for 2020.

The company must increase its profit through better service and efficiency. Titan Machinery showed that it's doable. The study trip has turned his focus more toward customer satisfaction—an area that has not been prioritized highly in Denmark up until now.

- There is too much talk and not enough action. For example, we need to solve the challenge of selling used machinery—it's too expensive to repair used machinery.

- My freedom and independence are most important to me as an machinery dealer, he says.

F.

Agricultural machinery dealer F thinks that 2020 will see the same turnover for the industry without any corrections for inflation and price movement. He believes that if he currently sells for index 100 through his own business, he will reach index 110 in 2020. If his own business currently has earnings at index 100, he expects index 110 in 2020.

The agricultural machinery dealers will have to specialize and focus on what they are good at and stop spreading themselves too thin on too many products and services.

- The top machinery dealers will grab the big brands within tractors and other self-propelled machines, because machines are becoming more and more technologically advanced.

- Hence, the industry needs to stay up to date at all times, so that it can advise on and service these advanced machines. It's expensive to do, so it requires volume, he points out.

For example, you could decide to "only" sell sprayers and focus 100% on these. But the big machinery dealers will be able to handle tractors, combines as well as tools.

- If you sell a brand of self-propelled machines, you should focus on that. There won't be time and resources for more than that, he believes.

The suppliers will put great demands on their machinery dealers in 2020.

- You will need to focus 100% on what you are good at. That is the prerequisite of generating a profit and sales. It might be necessary to skip negotiations in order to meet this goal, he says.

He also believes that the development leading up to 2020 requires that more businesses merge to create an machinery dealer with a much larger area than now. It may have several tractor brands.

- If it's impossible to merge with others, you need to grow on your own.

- But it's dangerous to invest at a time when we don't know what the big brands might require of their future network of machinery dealers, he says.

He would like to merge voluntarily with colleagues from the industry in order to obtain a sustainable size in 2020. He hopes that some "natural" merging partners will come to the conclusion that the time is right to have a dialog about potentially finding common strength in the face of the changes leading up to 2020.

If he succeeds in finding merging partners, they will need to create a new head office with room for staff functions as part of the new organization, i.e. head of used machinery, HR staff, IT specialists, etc.

The new head office will also need a large, modern workshop with room for repairs of large machines. This shop can be supported by small, local workshops at a suitable distance from each other, which could be the merging partners' old workshops, where customers could go. Or service technicians with broad knowledge should be able to visit customers at a short notice in order to handle common repairs.

His thoughts on company size in order to survive are not recent, but the trip to the U.S. confirmed the advantages of being bigger.

He does not want to sit on top of the organizational chart himself, but would like to share his power and ownership with others. Because he loves selling machinery, hiring a managing director would be the way to go.

- That would allow me to be on the board of directors and, in that way, gain influence through the general planning of the company's strategies, he says.

However, he doesn't believe that his colleagues are ready to participate in such a merger before 2020; but he would like to invite people to a meeting to discuss the options.

If he cannot retain the distribution of tractors, he could have a future in importing and selling machinery directly to customers. The advantage of not having tractors in the business is being independent of demanding suppliers.

- I predict that manufacturers will participate in mergers and acquisitions that could bring substantial change to our reality as machinery dealers, he says.

His own quality of life as an machinery dealer involves being in touch with the customers.

- Being big or even bigger won't make me any happier.

- Because I'm equally happy, whether I sell for USD 281 or USD 176,000. What matters most is making sure that your business doesn't go bankrupt, he says.

G.

Agricultural machinery dealer G expects the industry to have a turnover of USD 1.76 billion in 2020. If his business currently has index 100 for turnover, he expects index 200+ in 2020, if the strategy of becoming an important machinery dealer of an important brand is successful.

In his opinion, Denmark has moved beyond the recession and it is getting easier to obtain financing. Hence, he believes that 2020 will see the same turnover on product groups as today with, perhaps, a little more construction machinery than now.

But he is not sure whether his own business will continue to focus on selling construction machinery—that is under consideration.

- I'm also not sure if the big groups that are behind the tractors will have a Danish subsidiary in 2020 that will manage their import and thereby support the Danish market.

- There will be fewer subsidiaries in fewer countries that will need to cover the markets of the importers, I believe.

But he does not attach too much importance to this development when it comes to the support that machinery dealers need from suppliers—including the general marketing of the brand(s) that the manufacturer has.

He would like to be part of the future as an machinery dealer, but is not sure if this is possible.

- I'm positive that the big suppliers will have fewer machinery dealers on the Danish market in 2020 than they do now.

- These big suppliers will make increasing demands on their machinery dealers regarding financial strength, organizational structure, the layout of the stores and the distance between them, he points out.

Personally, he would like to cover a bigger geographical area than his current area in order to secure the necessary volume.

Alternatively, he could share the area, but sell more tractor brands.

- It will require an organization that is strong enough to have specialists, such as after-market managers, used machinery managers, HR staff, IT staff etc., he explains.

It might be a good idea to create an outlet together with other machinery dealers in order to sell used machinery faster. It would be a particularly good idea to place machinery with an outlet that sells other brands than what you sell.

I believe that the machinery manufacturers see sense in the machinery dealers also making a good profit. In order for that to happen, it is to be expected that the manufacturers of self-propelled machinery will demand an insight into the companies' finances and other key factors.

- It will probably be necessary to accept this demand in order to be in the business in 2020, he says.

He feels that times are difficult right now, but he believes that things will improve leading up to 2020. The recession prompted a need for necessary action—which helps the business get ready for 2020.

- I'm open to many different kinds of solutions, but I don't have the financial strength to purchase competitors. Others may buy my business with a view to merging, he says.

To him, happiness as an machinery dealer is contingent upon making things work—that his staff supports him as the owner and manager in reaching the goals.

H.

Agricultural machinery dealer H also believes that the industry's turnover will reach USD 1.4 billion in 2020.

Personally, he believes that his business currently has index 100 in turnover and will reach index 125 in 2020 or higher, if his business can cover a bigger geographical area. If his income currently is index 100, it will reach index 125 in 2020 with its current size.

The challenge is that there will continue to be fewer farms that will be bigger and use more advanced machinery.

- However, I believe that we will sell more to people in the cities and to segments that use professional groundskeeping machinery and small tractors.

- This is where we can gain market shares, he says.

At the same time he believes that, the bigger your area, the harder it will be to reach the corners of your natural area.

He also believes that, even though the industry has seen more mergers over the last few years, this development will continue or increase substantially leading up to 2020.

- But I don't envision myself as a managing director of a large machinery dealership. I prefer to work in the field and sell machinery. It's too stressful to have to deal with problems all the time, he says.

In his opinion, it will cost quite a bit of money to reorganize and grow. There are costs associated with any kind of growth, he says.

- I have a positive outlook on the future and can imagine Danish machinery dealers growing so as to have employees in staff functions, such as service manager, used machinery manager, HR staff, and more.

- Right now, however, many Danish machinery dealers are too small to be big and too big to be small. They are at a crossroads, he says.

He believes that there are limits to personal performance. As a responsible leader, it is important to delegate responsibility to your staff, who also gain more job satisfaction with more responsibility.

To be successful as an machinery dealer in 2020, you need qualified employees, who take responsibility, commit themselves and continue to educate themselves, he says.

- The future will also require professional training of new, competent staff, he points out. He feels that it pays off to educate and train your employees, as this results in employees who are molded to your own company culture and who feel like they are part of the company.

- It's important to feel like you're part of the "family", he says.

He has also experienced that customers are becoming more demanding.

He is happy to have a business where everything is under control and his employees thrive. Finances needs to be in order, otherwise he would rather call it quits right now.