2019 Inventory Study

Combines/4WD levels and turns – part 1

By TRENT HUMMEL

This study revealed some surprises along with a few well-known issues

WHAT ARE HEALTHY AND SENSIBLE annual North American combine/4WD replacement requirements?

The large agriculture equipment industry is in a period of correction. Farm revenues are down. Historic crop pricing charts indicate more years of lower crop prices. Dealerships are loaded with combines.

At the request of several organizations, the Western Equipment Dealers Association conducted a fall 2019 combine and 4WD inventory study. The study revealed some surprises along with a few well-known issues in part 1 of this two-part series.

Q 1: What is your current new and used 4WD inventory?

4WD Levels	New	Used
50% low	1.4%	4.2%
25% low	13.9%	22.5%
Satisfactory	66.7%	45.1%
25% high	9.7%	15.5%
50% high	4.1%	9.7%
+50% high	4.1%	2.8%

Q 2: What are your new and used combine inventory levels?

Combine Levels	New	Used
50% low	1.3%	1.3%
25% low	0.0%	0.0%
Satisfactory	77.6%	33.8%
25% high	10.5%	26%
50% high	6.6%	28.6%
+50% high	4.0%	10.4%

Q 3: What is the number of trades in the series from a new combine and 4WD?

# of Trades in a Series	Combines	4WD
1	5%	10%
2	10%	29%
3	46%	41%
4	29%	19%
5	11%	1%

Four-Wheel Drive Units

Q 1: What is your current new and used 4WD inventory?

NEW: Over 83% of respondents indicated their 4WD inventory is low to satisfactory. Dealerships have managed their new 4WD inventories. Going into winter, this is positive.

USED: Almost 30% reported their inventory is higher than satisfactory but still manageable. Over 26% reported being short of used 4WD inventory. This will promote 2020 presells and stock orders.

Q 2: What are your new and used combine inventory levels?

NEW: Nearly 80% indicated satisfactory. This is a surprise as both small- and large-scale dealerships have shared concerns of excessive new combine inventories. This could hinder 2020 presells/stock orders as dealerships sell ground inventory for next year's business.

USED: Nearly two-thirds of respondents are dealing with high used combine levels and about 40% of this group reported excessive used combine inventory. Many dealerships will reduce new combine sales while getting their used combine inventories to satisfactory levels.

Q 3: What is the number of trades in the series from a new combine and 4WD?

4WD: Weighted average is 2.5 trades to washout a new sale. This is one of the reasons for the favorable new and used 4WD inventory levels in prior charts.

COMBINE: Weighted average at 3.3 trades to washout a new combine sale is surprising. With combine prices increasing, we expected another layer of trades in the washout cycle. Possibly, dealerships are not taking the bottom-end trade.

In used combine forecasting terms, for every 10 new combines sold, 75% of responding dealerships will need to sell an average of 30-40 used combines – and 10% of the dealerships will need to sell 50 trades for every 10 new combine sales. Do dealerships have these used combine buyers?

Q 4: What is your new and used equipment turnover?

The survey results from 2014-2016, the Under 1x category is included in the 1.1x-2x turns category.

As the chart indicates, used turns are not improving. This has to be concerning for dealerships, OEMs and bankers.

TRENT HUMMEL is a lead management consultant and trainer for the Western Equipment Dealers Association's Dealer Institute.

Turns is about managing the dealerships capital. Lower turns lead to working capital being tied up in inventory. As 2019 comes to an end, a high percentage of dealerships could be experiencing cash shortages.

Q 5: What used equipment turnover level is needed to ensure your dealership's sustained success?

It is concerning that almost 80% of dealership respondents believe a range of 2x-4x used equipment turn rate is required for a dealership's success. Lower turns will lead to increased capital requirements.

With increased used equipment costs, along with shorter/no trade terms and reconditioning revenues trapped in trades, every dealership should be targeting used turnover at 4x-6x in order to cash flow the organization.

Qs 6-8:

- In your area of responsibility, can the area absorb – on a sustainable basis – the number of new units an OEM expects you to sell annually?
- Is your area of responsibility able to absorb the used equipment generated from new unit retails on an annual basis?
- Is it sustainable to have the current level of new units added to your area of responsibility on an annual basis?

RESPONSE: Nearly 75% of dealerships indicated it's Not Possible to keep adding the current volume of combines and 4WD to the market. Continuing with today's volumes will add to an already oversupply of used equipment, which will cripple dealerships.

In part 2 of this series, we will dive into the historic and current combine/4WD sales and estimate healthy retail volumes based on cropland acres… because it's just good business. WED

TRENT HUMMEL is a lead management consultant and trainer for the Western Equipment Dealers Association's Dealer Institute. He provides onsite dealership training and conducts courses to improve inventory management and business operations.

Hummel's strategies about inventory turns, aging and margin have resulted in rejuvenating struggling wholegoods' departments. His commitment to operational excellence in the management of wholegoods has earned him a reputation as one of the industry's foremost experts on sales growth and inventory control.

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Q 4: What is your new and used equipment turnover?

Used Turns	2014	2016	2019
Under 1x			14.3%
1.1x-2x	42.0%	52.4%	41.7%
2.1x-3x	29.0%	29.5%	30.9%
3.1x-4x	29.0%	14.3%	11.9%
4.1x plus	0.0%	3.8%	1.2%

New Turns	2019
Under 1x	11.7%
1.1x-2x	37.7%
2.1x-3x	37.7%
3.1x-4x	9.4%
4.1x plus	3.5%

Q 5: What used equipment turnover level is needed to ensure your dealership's sustained success?

Dealerships Estimated Healthy Used Turn for Success	Percentage
Under 1	1.2%
1.1x-2x	10.6%
2.1x-3x	45.9%
3.1x-4x	32.9%
4.1x plus	9.4%

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

U.S. – November 2019 Ag Tractor and Combine Report	November			Y-T-D November			November 2019
	2019	2018	% Chg	2019	2018	% Chg	Beginning Inventory
2WD < 40 HP	7,205	7,354	-2.0	151,981	144,842	4.9	91,203
2WD 40 < 100 HP	3,189	3,127	2.0	54,622	54,258	0.7	35,031
2WD 100+ HP	753	714	5.5	16,763	16,240	3.2	7,729
Total 2WD Farm Tractors	11,147	11,195	-0.4	223,366	215,340	3.7	133,963
Total 4WD Farm Tractors	106	172	-38.4	2,567	2,484	3.3	684
Total Farm Tractors	11,253	11,367	-1.0	225,933	217,824	3.7	134,647
Self-Propelled Combines	160	213	-24.9	4,272	4,228	1.0	762

Data provided by the Association of Equipment Manufacturers.