We gambled and lost twice

Now, do we cash out or stay in?

By TRENT HUMMEL

"Are you nuts?"

That was the reaction I received when I proposed the idea of selling our equipment dealership. My partners, all in their thirties, were shocked. By their reaction, it was obvious that they were not clear on the reasons behind the suggestion.

Taking a deep breath, I began to explain. "The equipment industry is full of cats and full of mice. Right now, we are a cat. We are not the biggest cat but with our current business volume, we are positioned as a cat."

My partners failed to see the analogy, they continued to fire back, "Sell the store? Are you sure? For what reason?" They correctly pointed out how sales volumes in all departments had grown since acquiring one of our locations and how profitable and lucrative the business had become.

We had instituted wholegoods processes where new or used equipment did not have birthdays. This was done without using auctions. The aftermarket departments were on the upswing.

Service was booking more than 100 winter inspections per year, which were feeding the aftermarket departments. We were innovative in both the agriculture and consumer markets, which led to sustained growth. All departments were in top operational performance, which resulted in achieving net income benchmarks. We had low stress, high income and life was good.

To their comments, I calmly responded by telling them that we were getting the most out of this location. More growth would only be realized through buying market share. We had already decided to not buy another location.

I provided another question to think about. "If we maintain operations at the current volume and decide not to sell the store, how long will it be before we roll over and become a mouse?"

We all know where an old, beat up dealership sign stands. At one time, there was an active and healthy dealership in that location. Many of those dealers were cats in their day but, through no fault of their own, they became mice. We were determined not to make that same mistake.

Buy, sell or status quo? What is your list telling you?

Immediately, we made a list of why we should or should not cash out. The list of 25 key points came fast. Whenever possible, we have tried to make solid business decisions based on facts.

As a group, we separated the emotional reasons from the business reasons. Emotional reasons tend to cloud good judgment. I acknowledge that separating emotional and business points is easier said than done, especially when you are a fourth-generation owner-operator.

We cleared all of the emotional reasons off the table. Emotional reasons were not allowed to be discussed. All that remained were five solid business reasons and all indicated it was time to cash out. The room fell silent. It took a few days to digest.

Surprisingly, the two older generations advised us to follow the business reasons and not our hearts. When we regrouped, the conclusion was, "We need to sell while we are still a cat." At this point, we should still command some goodwill. A mouse has little chance of long-term survival, let alone realizing goodwill. We were now a united front – it was time to find a buyer.

Company history

Our family founded an International Harvester Corporation dealership in 1923. In 1985, we went through the Case-IHC merger/buy out. If we had not been selected to be the representing Case-IH dealership, my dad and uncle had a John Deere dealership contract waiting on their desk. The JD contract was the backup plan for the turbulent times.

The 1980s were an experience for all that were in the agriculture equipment industry. The economy drove rationalization and reduced the number of mainline brands, dealerships and customers.

The First Gamble: *What was FIAT going to do with the two brands, Case-IH and New Holland?*

When FIAT acquired Case-IH in 1999, we believed it would eventually consolidate the two brands. In fact, 1999 was the beginning of the equipment industry's "Dark Ages."

In some respect, the climate and events were similar to the events that brought Case-IHC under one brand. How dark were those Dark Ages? In 1998, North American new combine sales were close to 13,000 units.

Only one year later, new combine sales were about half of that – just over 6,000 units. We were told by many not to be concerned; there was an abundance of used equipment for sale and the customers would have a good selection to choose from.

They were right. New and used equipment supply was at an all-time high and demand was at an all-time low. All product groups and all brands were feeling negative pressure. This lead to another round of dealership rationalization.

The Dark Ages did create an environment for the initial stages of multi-location complexes throughout the industry and across all brands. We believed from the experience of the Case-IHC merger, and many other past mergers, that eventually Fiat would consolidate the brands.

Even if FIAT had not initially intended to consolidate the brands in 1999, we believed the market downturn would allow the company the opportunity and rationale to do so. At

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that time, we imagined, every area of responsibility would have a John Deere, CNH and AGCO dealership, just like North America's big three auto makers.

So, our first gamble was the belief that FIAT would quickly merge the two brands. In 2000, we were shopping for another location. Our home store was a Case-IH dealership and it never crossed our mind to shop for only Case-IH locations.

Remember, in our view, it was only a matter of time before New Holland and Case-IH were going to consolidate into a single CNH dealership network. This belief allowed us to not only explore Case-IH locations but New Holland locations as well.

A purchase of either brand would position us with two locations and the start of a complex. We discovered that buying a store was pretty easy, especially when the word got out that two young guys were looking to buy a dealership.

We had 50 owners from all brands contacting us to pitch their locations. Even though our home store was on the Montana-Alberta border, we had a call from a Texas John Deere dealer.

Another dealership owner proposed we not pay him up front. Instead, we could pay him from the profits earned over the next 10 years. He was even flexible on the years. It was evident that many dealers who emerged from the Dark Ages wanted out.

In March 2001, we acquired our chosen location, a New Holland dealership, 240 miles away from the home store. It was a run-down, beat up dealership – just what we could afford.

They were doing almost all operational procedures opposite to the way we planned to operate. After taking possession and from the changes we put into place, we experienced a 90 percent employee turnover in the first 18 months.

Clearly, 90 percent of the inherited employees were not on our bus. If they didn't leave on their own, we pushed them out. We determined this was a necessary and short-term pain.

The previous owners sold 17 new combines in 1997-1998. From the 17 new units, they still had 10 trades remaining in 2001. Yes, the Dark Ages were not kind to them along with many other dealerships at the time.

"The dealership buyer must purchase the used equipment," was listed as a condition of the dealership's sale. Three prior potential buyers ran from the deal. We decided not to purchase their used equipment in the deal and they conceded to that.

While turning around our new location, we watched the ever-growing division and separation of management operations between Case-IH and New Holland. With no change in sight, we were left operating two independent and separately branded dealerships.

Our neighboring inline and competitive branded dealerships had grown their complexes while we waited for our gamble to pay off. Our nearest inline competition had grown to an eight-store New Holland complex.

At our new location, the competition was a four-store AGCO operation, a two-store Kubota dealership, a five-store Case-IH complex, and a John Deere store linked to 11 locations. We also had two publicly-traded dealership entities, Cervus Equipment Corporation (JD) and Rocky Mountain Equipment (Case/Kubota), right on our fringe area.

We had become the little fish in the big sea and the gamble we made did not materialize. We accepted this and it became a game changer for our long-term vision. Now we had to play the hand we were dealt and not the hand we wish we had.

It was apparent that having two independent dealerships was not the right business model in such a complex market. Ultimately, we decided to liquidate the Case-IH home store location in 2006.

Because selling a dealership doesn't happen overnight, we approached a number of interested buyers. In 2008, the right deal came along with Rocky Mountain Equipment. This was its first dealership purchase after going public and a good decision for both sides.

The Second Gamble: *Did we sell too soon?*

The second gamble arose with the hot market that we did not see, nor did many others in the industry. With the dealership complexes getting larger and the industry deep into GPS guidance technology, we were faced with needing to add locations plus invest in our own guidance system network. We believed we were so far behind our competitors that the financial risk was too much to tackle one let alone both of these needs.

As noted previously, we were a fourth-generation dealership. One of the lessons we learned is the equipment industry will cycle both up and down.

The lessons from the Dark Ages were still fresh in our minds. It was a time when many dealers begged to cash out and history tends to repeat itself. We were very profitable in 2007, 2008 and 2009. However, while we were having those big years, we still thought, "This cannot go on forever."

We believed the time to sell was then, after three great years. In 2010, we found a buyer and cashed out. We made a good return on our investment. We did what we were supposed to do – buy low and sell high. Who would have imagined that 2011, 2012 and much of 2013 would set sales records beyond belief?

As we reviewed how much the industry sold in 2011-12 and 13, should we have held on and participated in those years? Some say we cashed out too early. However, in our minds, it was more of a "I wonder what if…?" versus "What did we earn?"

We have not let this consume us. Would our buyer be interested or would any buyer have had the appetite to purchase our second dealership had we waited until 2014 or 2015? We know of a number of dealerships that wanted to cash out in 2015, 16 or 17. They cannot find a buyer.

Yes, we could have held out for a few years and reaped the rewards of a few highly profitable years. To this day, that was a risk that we are thankful we did not take.

We have been asked countless times why we liquidated? We were, after all, located in a great agriculture/consumer market, operations were running smoothly, we had a stable base of employees, and we were making good money.

In hindsight, the gambles we took forced us to play our hand. With the events at that time, our competitors' advantages, our manufacturer going a different direction and our healthy understanding of the equipment industry's history, we believe cashing out was the right thing.

In addition to the cat and mouse comparison, I have another analogy that hits very close to home. "A bird in the hand is *still* better than two in the bush" – and it's just good business. WED