



NORTH AMERICAN EQUIPMENT DEALERS ASSOCIATION

NAEDA Market Share Task Force

Report and Recommendations

March 2008



“Helping Dealers Succeed”

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Task Force Purpose

The NAEDA Market Share Project is a direct result of the growing concern in the dealer community about the increasing importance of market share, especially as it affects contract cancellation and pay for performance programs. Manufacturers are placing more and more emphasis on market share as “the” preferred metric of dealer performance. Dealers, however, are growing more skeptical about the accuracy of the current market share metric. The result is a growing desire to better understand and improve market share statistics. A white paper prepared by NAEDA staff (attachment A) was circulated to the NAEDA board at its March 2006 meeting along with a request for action from the Minnesota-South Dakota Equipment Dealers Association (attachment B) to further investigate several perceived flaws in the current market share reporting system.

Subsequently, the NAEDA Board of Directors requested staff and NAEDA affiliates to continue their research into the current market share reporting system. They further requested NAEDA legal counsel, Seigfreid, Bingham, Levy, Selzer & Gee, to investigate the possible legal precedence surrounding the issue of market share. At the same time, they requested then-NAEDA Board Chairman Bob Frazee to appoint a task force to examine the findings of staff, NAEDA legal counsel and others and make recommendations for improvements to the full NAEDA board. This report and recommendations are the direct result of those efforts. They are presented as a means of furthering the discussion about how to improve the current reporting system and instill a sense of fairness and trust in the resulting data.

A special note of thanks goes to the task force members who worked diligently on behalf of the equipment industry to understand the current system, sort through the issues surrounding market share and develop a set of recommendations for consideration by the equipment community. Task force members are listed in Attachment C.

Issues and Recommendations

I. Improving the accuracy of data

The task force is of the strong opinion that accuracy of market share data is paramount to both dealers and manufacturers. At the present time, however, market share statistics are based solely on numbers generated by the Association of Equipment Manufacturers (AEM). Therefore, under the current arrangement, responsibility for insuring the accuracy of market share data mostly lies with manufacturers and AEM. It is clearly in the best interest of the industry to insure the statistics are as accurate and reliable as possible. The NAEDA Market Share Task Force strongly believes AEM and the companies that produce the data should shoulder the major responsibility for improving the accuracy of market share reporting.

Further, the NAEDA Market Share Task Force believes the following recommendations would provide additional clarity and meaning to the current process and the numbers generated by that process:

1. Increase the number of companies and products reporting to AEM (see Attachment E).
2. Improve the availability and accuracy of market share statistics at the AOR or county level.
3. Develop a more consistent policy of reporting sales in those instances where a customer farms in multiple counties or crosses dealer territories. Revise the definition of “county” as shown on page 53 of the AEM Policy and Procedure Manual. Another option is reporting by zip code (and postal/provincial code).
4. Create up-to-date methodology to account for machinery shipped for rental fleets with point of delivery “to be determined” until the dealer removes it from rental/lease status, similar to construction equipment.
5. Encourage OEM’s to record sales for “National Accounts” to the servicing dealer.
6. Insist on more consistent and rigorous enforcement of company reporting within current AEM horsepower categories. In addition, improve the product classifications or definitions to allow for unique regional differences. For example, same or similar horsepower tractors that are equipped differently in the Delta region versus those in the far west or Polouse area.
7. Show total dollar value of sales and number of units for each product category and for each dealer.
8. Develop some methodology to take into consideration factors which influence market share controlled by a manufacturer and not the dealer, i.e., product quality and reputation in the marketplace, reliability, special allowances, and unique market demands such as regional production patterns that do not fit properly into broad classifications.

II. Transparency and Validation of Data

Today dealers are being compensated or penalized based on market share performance. Manufacturers have intensified the importance of this single metric and attached financial incentives to this measure, as well. Therefore, the NAEDA Market Share Task Force believes dealers should have the right to verify the information used to determine their market share and financial program results. The task force makes the following recommendations:

1. Enforce more consistent and rigorous accounting of sales by dealers, both inside and outside their AOR/county of operation.
2. Educate dealers on the basic operations of the AEM Statistical Committee to alleviate misunderstandings or common misperceptions.

3. Allow dealers the opportunity to validate their numbers electronically PRIOR TO being analyzed and reported using serial numbers, product registrations or customer name and address.
4. Develop a formal, uniform grievance resolution procedure through an independent third party. The current “appeal” process is done through each manufacturer.
5. Consider dealer representation directly on the AEM Statistical Committee.
6. Consider the use of equipment registration to reflect market share for both new and used equipment.

* See Attachment D – NAEDA Request to AEM Statistical Committee on May 22, 2007.

III. Alternative Metrics

Many variables contribute to the success or failure of a business. Task force members believe there is too much emphasis placed on one metric – market share. Furthermore, they stated that over emphasis on one metric encourages a narrow focus and has the potential to exclude other significant business success factors and operating benchmarks. Other metrics most often mentioned, but by no means an exhaustive list, might include customer satisfaction, percentage total market penetration (new and used), absorption rates, parts and inventory turnover and others. Based on this discussion, the task force recommends the following:

1. AEM and NAEDA should work collaboratively to develop meaningful benchmarks for successful business operations that can be universally adopted by members of both organizations.

IV. Additional Future Considerations

The NAEDA Market Share Task Force strongly urges NAEDA to consider the development of alternative data sources for market share calculations if a majority of the recommendations contained in this report cannot be accomplished in a timely manner. Several alternatives were discussed by the task force, but additional research and due diligence would be required before making a final decision on the best method available.

Similarly, the task force did not go as far as making a firm recommendation, but strongly urges NAEDA to explore further the concept of “total market penetration” or “install base.” These are meant to be broader concepts of market coverage, indicating total “brand” penetration in a given market area (new and used equipment) versus new only.

NAEDA must stand for dealer viability and profitability. Used equipment, namely that which may be under manufacturer warranty or coming off a short-term sale and trade-out program, needs to be considered. Perhaps a longer sales cycle, up to 24 months, should also be part of a future “viability equation.” The task force wanted to emphasize that the “total market penetration” is also directly correlated to parts and service components of their dealership. Manufacturers should support such a concept because it also benefits the viability of their dealer network and their parts sales.

Measuring “Total” Market Share

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NAEDA, on several occasions, has expressed its concern that current market share calculations do not accurately or completely reflect conditions in a dealer’s area of responsibility. Therefore, it raises serious questions about using current calculations to measure a dealer’s performance. Furthermore, since market share is a key factor in measuring dealer performance, NAEDA would like to begin a serious discussion in the industry about improving the quality of this metric.

The Underlying Concerns

Several factors weigh into NAEDA’s desire to redefine the concept of market share:

1. Only new wholegoods are currently reported.
 - a. New wholegoods reflect only one segment of the “total” market share for any given dealer. Instead, used equipment sales, parts and service should also be included in any measurement of the “total” market share figure.
2. Not all manufacturers report production or sales.
 - a. Not all products in a manufacturer’s line are reported. Efforts should be made to automate and simplify the reporting process to include a higher percentage of manufacturers and products offered by the manufacturer. Ultimately, this also should include shortline and outdoor power equipment as well.
3. Dealer performance, as measured by market share, is stipulated in most major supplier contracts.
 - a. Dealers, therefore, have a legal responsibility to “perform” up to some vaguely defined “market share” statistic that is incomplete at best.
4. Lack of measurement standards.
 - a. Currently, the market share expectations of manufacturers for a given AOR often total to more than 100 percent. Can we identify a way to insure that market share expectations for a given AOR are realistic and only total to 100 percent for all manufacturers represented? Why should the demands on dealers be different than the results of a given manufacturer in reality?
5. There are wide variations among manufacturers regarding what is counted or not counted in a dealer’s AOR toward market share.
 - a. Leases, national accounts, customer home address different than delivery address, etc. The formula is inconsistent at best and varies from one manufacturer to another. Also, some manufacturers have policies designed to “police” sales inside the dealer AOR and some do not.

Options and Possible Courses of Action

1. Meet with AEM to discuss perceived shortcomings of current system and to explore ways we might collaborate to improve market share measurement.
2. Survey dealers to determine if the concepts outlined in this paper have validity from AEM's perspective. Encourage affiliate associations to discuss with dealers at annual or regional meetings and provide feedback.
3. Introduce legislative language that redefines "market share" to include the concepts outlined in this paper.
4. Consider options for NAEDA and affiliates to gather "market share" data more aligned with concepts outlined in this paper. Options might include cooperation with other entities that could have access to portions of the data needed, i.e. IRON Solutions, Fastline, Farm Journal, AEM, AED, OPEI, etc., and have the data sent to and analyzed by an objective third party supported by all the interested parties.
5. Publicize the concept in speeches and magazine articles as the "more equitable and fair" market share measurement system.
6. Conduct meetings or correspond with each major, shortline and OPE manufacturer to introduce the concept and collect their input.
7. Some combination of all or some of the above.
8. Do nothing – the concept has no merit.

ATTACHMENT B

Request for NAEDA to Develop a Position Paper on the Use of Market Share in Evaluating Dealer Performance

The MN-SD Equipment Dealers Association respectfully requests that NAEDA develop a position paper on the use of market share by the major manufacturers in evaluating dealer performance. We suggest that dealer concerns with the current market share requirements of the manufacturers be gathered and analyzed and presented in this position paper. NAEDA would then ask the manufacturers to reevaluate and revise their market share requirements, methods of calculating market share, and their emphasis on market share in evaluating dealer performance.

In the 2004 NAEDA Dealer/Manufacturer Relations Survey 86 percent of the respondents rated their relationship with their major manufacturer as either fair or poor in regards to “dealer market share responsibility.” We continue to hear dealer concerns about how the manufacturers measure market share, single it out as the major performance criteria for dealers, and apply undue pressure to meet the seemingly arbitrary market share goals established by the manufacturers.

We believe market share goals and the pressure manufacturers put on dealers to attain them are not conducive to dealers achieving better profits, in fact, we suggest that the manufacturers’ obsession with market share leads to lower margins for all dealers and inflated used inventory values.

We believe that manufacturers are unfairly and aggressively using market share as a tool to expedite their agenda of a dealer network with fewer owners with multiple stores. They are putting more emphasis on market share and stepping up pressure on single-store dealers to meet market share goals while at the same time restricting the allotment of equipment available to these dealers. Their goal, we believe, is that dealers will eventually give up and sell out to larger multiple store dealerships. Two and three store operations will soon be pressured to sell out to even larger dealerships.

Here are a few of the concerns we have identified with the current market share measuring system used by most manufacturers:

1. Dealers are not given market share credit (by some manufacturers) for equipment sold in their AOR by other dealers. The manufacturer’s market share in a given AOR, not the dealer’s market share, should be used to gauge the performance of the dealer.
2. Dealers should be given market share credit for equipment sold in their AOR that is built by the manufacturer and sold under another label by another company or as another product line as long as there isn’t a significant difference in design and features, (i.e. the Challenger tractors and the AGCO line, etc.)
3. Dealers should be given credit toward their market share for sales to government agencies and national accounts by the manufacturer.
4. Dealers do not have total control of the market share they attain because of the manufacturer’s allotment of inventories, unavailability of equipment, stocking restrictions, floorplan limitations, sales programs, etc. The manufacturer can easily control the market share a dealer attains.

5. Market share is calculated for only select items in a manufacturer's total line of equipment. Consideration should be given to all of the equipment a dealer sells of the manufacturer's line, especially in areas that sell a lot more of non-market share equipment (i.e. hay tools) than the equipment the manufacturer counts toward market share.
6. Market share should be only one of several criteria a manufacturer uses to gauge a dealer's total performance and should carry no more weight than the other performance criteria.
7. Market share requirements need to be the same for all dealers in similarly situated areas, not based on a state average.
8. The data on which a dealer's market share is calculated and the formulas used to make that calculation, including the area and state averages, need to be made available to dealers.

ATTACHMENT C

Market Share Project Task Force Members

(9-15-06)

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PAUL E. KINDINGER President and CEO

ATTACHMENT D

May 22, 2007

To: AEM Agricultural Statistics Committee
From: NAEDA Market Share Task Force
RE: Considerations to improve market share statistics

Thank you for allowing us this opportunity to address the AEM Agricultural Statistics Committee. The NAEDA Market Share Task Force was formed because of escalating concerns from dealers across North America about the increased emphasis on market share by many of the companies represented in this room today. Market share statistics play an more important role than ever before in determining the long term value of a dealership and now equally important, it is a component of most OEM annual volume payment schedules. Increased emphasis on this particular metric has heightened its visibility, economic significance and potential legal implications.

It is, therefore, our goal, as yours, to insure that this metric is as accurate, timely, reliable and trusted by all parties as possible. To that end, we would like to discuss and emphasize the following concepts for your consideration:

- **ACCURACY**

The challenge: Encourage more thorough, complete and consistent reporting from dealers and manufacturers.

Options:

- Increase the number of companies and products reporting into the system.
- Improve the availability and accuracy of market share statistics at the AOR or county level. This would eliminate or ameliorate issues where the numbers reported are skewed due to dramatically different market conditions in a state/province.

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- Develop a more consistent policy of reporting sales where the customer farms multiple counties that cross dealer territories. Although the delivery point may be outside the selling dealer's territory, the farmer may own property that is within the selling dealer territory. AEM could revise the definition of "county" as shown on page 53 of their "Policy and Procedure" manual.
- Create methodology to account for machinery shipped for rental fleets with point of delivery "to be determined" until the dealer removes it from the rental status and delivers to a purchasing customer at a later date. This would require a change in the definition of "inventories" in the AEM "Policy and Procedures" manual.
- More consistent and rigorous accounting of sales by dealers, both inside and outside dealer's AOR.
- Encourage OEM's to record sales for "National Accounts" to the servicing dealer.
- More consistent and rigorous enforcement of company reporting within AEM horsepower categories.
- Show total dollar value of sales and number of units for each product category and for each dealer.
- Take into consideration how differences from one manufacturer to another and product availability, allocation, special promotional allowances, special financing arrangements, reputation of a manufacturer for quality, reliability, etc., impact market share. The dealer has little or no control over these factors.

- **TRANSPARENCY**

The challenge: If a dealer is compensated or penalized for market share performance, they should have the right to verify the information used to determine that result.

Options:

- Encourage a system that is more transparent. Educate dealers on basic operations of AEM Statistical process to alleviate misunderstandings or common misperceptions.
- Allow dealers an opportunity to electronically validate their numbers prior to being reported for analysis using serial numbers, product registrations or customer name and address.
- Develop a formal, uniform, grievance resolution procedure.

- **ALTERNATIVE METRICS**

The Challenge: Many variables contribute to success or failure of any business. Over emphasis on one metric encourages a narrow focus on that measure to the possible exclusion of other meaningful statistics.

Options:

- Consider the development of alternative metrics to accompany market share, such as customer loyalty or dealer profitability, to provide a more rounded and complete perspective of dealer performance.

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ATTACHMENT E

AEM County Reporting Matrix	Tractors	Combines		Forage Harvesters		Hay Balers		Mower Conditioners		Windrowers (Swathers)	Self-prop Sprayer	All	
Parent Company	2-wd & 4-wd mfw	Separator	Platform	Corn Head	Pull-Type	Self-Prop	Rectangular	Round	Rotary	Sickle Bar	S-P Power Units	High Clearance	Company Products
AGCO	1	1	1	1	1	1	1	1	1	1	1	1	14
Alamo Group Belarus, Canada	1					1		1					1
Branson Tractor	1												1
Claas	1	1	1	1	1	1	1	1	1	1	1	1	7
CNH Global	1	1	1	1	1	1	1	1	1	1	1	1	14
Daedong	1												1
Deere & Company	1	1	1	1	1	1	1	1	1	1	1	1	14
Farmtrac	1												1
Gehl					1	1		1	1			1	4
Hagie													1
JCB	1												1
Krone	1					1	1	1	1				4
Kubota	1												1
Landini	1												1
MacDon			1							1	1		4
Mahindra	1												1
McCormick Intl	1												1
Miller St.													
Nazianz												1	1
Montana Tractor	1												1
MTD-Cub Cadet	1												1
SAME Deutz-													
Fahr	1												1
Vermeer								1	1				2
Yanmar	1												1
Product Participants	16	3	4	5	4	6	5	8	7	4	4	5	



North American Equipment Dealers Association

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