
A Special Management Report from the Editors of

Rural Lifestyle

Dealer[®]

**2020 Dealer
Business Trends
& Outlook
Report:**

85% OF DEALERS FORECASTING
A POSITIVE 2020

A special primary research report
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Part 1 – Rural Lifestyle Market Still Positive for 2020

Annual survey shows dealers are positive about total revenues and aftermarket revenues, as well as zero-turn mower sales.

Lynn Marcinkowski Woolf
Managing Editor

The trend toward moderated optimism for the rural equipment market that showed up in 2019 looks to continue this year, with aftermarket revenue and zero-turn mowers being growth drivers in 2020. This is based on responses from dealers across North America in *Rural Lifestyle Dealer's* 12th annual Dealer Business Trends & Outlook Report.

The moderation needs to be placed into context, however, as the rural equipment market remains strong with about 85% of dealers expecting 2020 to be a good year.

Dealer Takeaways

- » About 85% of North American rural equipment dealers say 2020 will be as good as or better than 2019. About 91% say aftermarket revenue will be as good as or better than last year.
- » The top 5 categories driving unit sales growth in 2020 are zero-turn mowers, tractors under 40 horsepower, rotary cutters, chain saws and hay tools/balers.
- » Finding good employees, health-care programs and costs and low sales margins are the top 3 issues dealers are most concerned about.
- » More than 53% of dealers say their market has grown 5-19% in the last 5 years and more than 16% say they've experienced growth of 20% or more. About 68% of dealers have been serving rural lifestyle customers for more than 16 years.

The Business Trends & Outlook Report is the only one of its kind to analyze the rural lifestyle equipment niche. For some, the segment helps balance out declines in the ag equipment market. And for many, big changes happening in technology such as battery-powered equipment, autonomous mowers and connected devices will break open new sales opportunities.

Analyzing Data

Let's get to the numbers. About 68% of the respondents have been serving the market for more than 16 years. They report that the niche continues to expand with about 53% saying their market has grown 5-19% in the last 5 years. (See more demographic data in the table on page 7.)

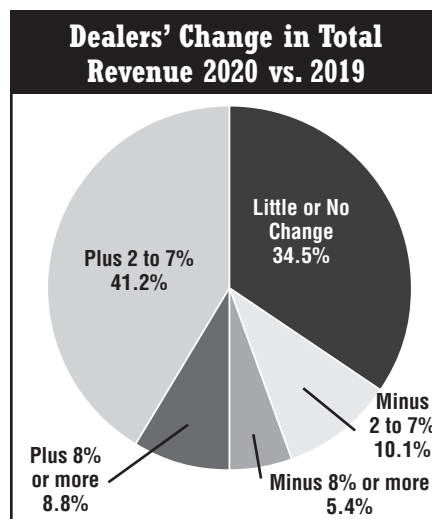
Overall, about 85% of rural equipment dealers expect total revenue in 2020 to be as good as or better than 2019. That compares with 88% in last year's survey. Broken down further, half

expect total revenue to increase 2% or more; about 35% expect similar numbers as last year; and nearly 16% expect total revenue to decline by 2% or more. (See the charts on this page.)

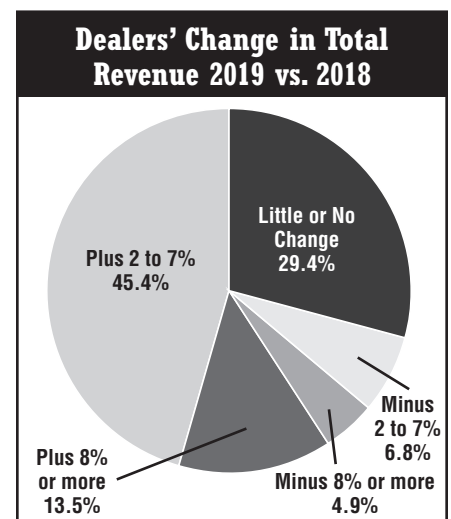
Aftermarket revenues are typically forecast higher and that bore out again this year. About 91% of dealers expect aftermarket revenue in 2020 to be as good as or better than 2019. That compares with 93% in last year's survey. Broken down further, about 65% expect aftermarket revenue to increase 2% or more, 26% expect similar numbers as last year and about 9% expect aftermarket revenue to decline 2% or more. (See the charts on page 4 for more details.)

The 5-year trend for total revenues is trending downward, while the 5-year trend for aftermarket revenues is trending upward. (See the charts on page 4.)

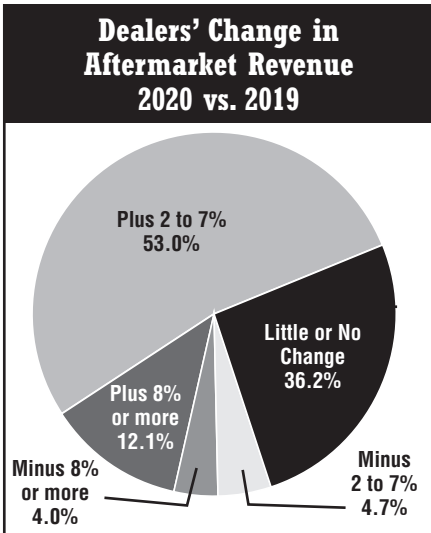
Here's another comparison using the weighted average, where the increasing revenue figure is compared against decreasing revenue. A larger number



For this year, half of rural lifestyle dealers expect total revenue to grow by 2% or more.



For 2019, nearly 59% of rural lifestyle dealers expected total revenue growth of 2% or more.



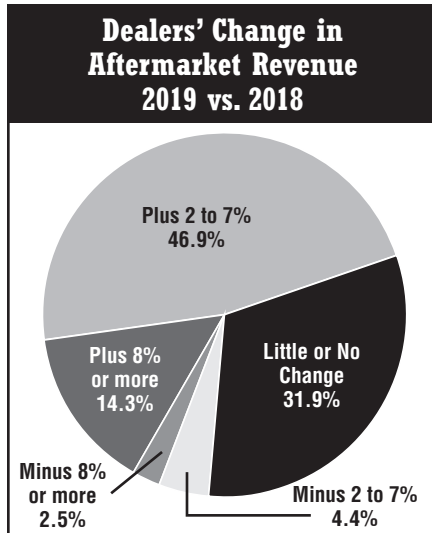
For 2020, about 65% of dealers expect aftermarket revenue to increase by 2% or more.

indicates higher optimism. The weighted average for total revenue in 2020 is 1.67 compared with 2.43 in 2019. The weighted average for aftermarket revenues in 2020 is 2.82 compared with 2.86 for 2019.

About 43% of dealers say their parts and service departments contribute 26-50% of their overall revenue. (See the chart, "Aftermarket Contribution" on this page.)

What's Driving the Segment?

The top 5 categories driving unit sales growth in 2020 are zero-turn mowers, tractors under 40 horsepower, rotary cutters, chain saws and hay tools/balers. Zero-turn mowers have topped the list for the last 5 years and this year,



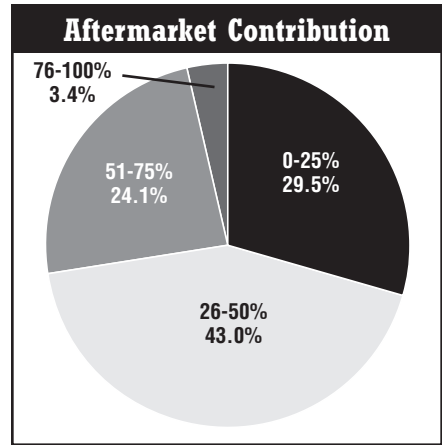
Last year, about 61% of dealers expected aftermarket revenues to increase 2% or more.

nearly 60% of dealers expect unit sales to increase 2% or more. That optimism is down slightly from last year when 66.7% of dealers expected similar increases of unit sales. (See the table "Product Lines with Most Potential to Increase Unit Sales in 2020" on page 5.)

There have been some shifts among the categories in unit sales projections as utility vehicles dropped from third last year to ninth this year. Chain saws moved up to fourth from the 11th position last year.

Compact excavators were added to the list of categories this year and they ranked 10th out of the 27 categories surveyed. Nearly 28% of dealers expect unit sales of compact excavators to increase 2% or more this year.

The weighted average perspective



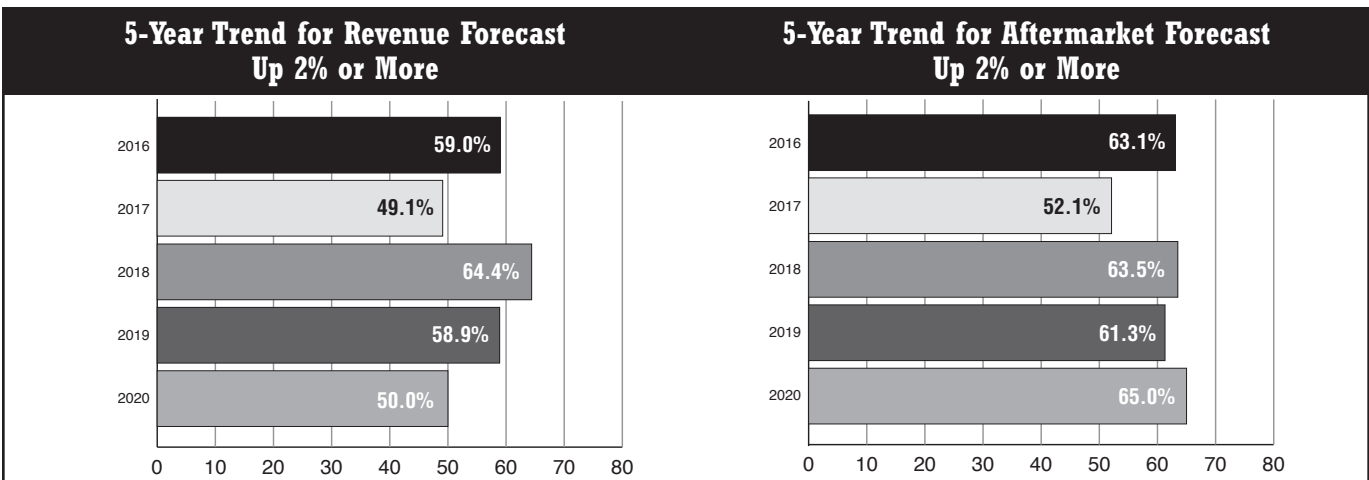
About 43% of dealers say parts and service contribute 26-50% of their overall revenue.

shows dealers are especially optimistic about the sales of chain saws. (See the chart "Weighted Average Perspective" on page 5.)

Expanding Lineups

Several new questions looked at dealers' current lineups and plans for the next 2 years. About 51% of dealers currently carry 5 or fewer brands, with 11% carrying 15 or more brands. (See the chart "Number of Brands Carried" on page 5.) About 75% of dealers said they did not expect to add an equipment line this year.

Zero-turn mowers top the list of product lines dealers will be adding, with about 35% adding the equipment in 2020. Rounding out the top 5 regarding products being added are tractors under 40 horsepower, tractors 40-100 horsepower, utility vehicles and skid steers. Those same categories made up the top 5 in



The rural equipment market is showing a downward trend in terms total revenue increasing 2% or more. However, aftermarket revenue is trending upward.

Product Lines with Most Potential to Increase Unit Sales in 2020 (% of Dealers)

Rank	Equipment	+2% or More Unit Sales Growth vs. 2019	+2% or More Unit Sales Growth vs. 2018
1	Zero-Turn Mowers	59.3	66.7
2	Tractors (<40 HP)	47.4	59.8
3	Rotary Cutters	38.6	46.5
4	Chain Saws	34.8	29.9
5	Hay Tools/Balers	34.7	32.6
6	Tractors (40-100 HP)	33.8	39.7
7	Skid Steer Loaders	32.5	34.1
8	Snow Removal Equipment	31.0	29.4
9	Utility Vehicles	30.9	48.2
10	Compact Excavators	27.9	New for 2020

Weighted Average Perspective (larger number indicates more optimism)

Top 5 Categories with Most Potential for 2020	2020 Weighted Average	2019 Weighted Average
1. Zero-Turn Mowers	2.59%	2.74%
2. Tractors <40 HP	1.72%	2.40%
3. Rotary Cutters	1.43%	1.74%
4. Chain Saws	1.25%	1.01%
5. Hay Tools/Balers	0.65%	0.64%

A weighted average analysis shows dealer optimism about chain saw sales improved when compared with other top product categories.

last year's survey, with zero-turn mowers moving up from the fourth spot. (See the table "Product Lines Dealers are Likely to add in 2020" on this page.)

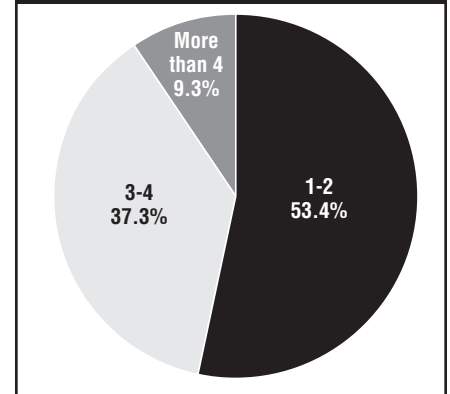
The new category measured this year, compact excavators, placed sixth. Power hand tools moved up on the list to 9th this year from 19th in last year's survey.

Setting Policies

This year, dealers responded to several new questions about business operations and Sara Hey, business development manager for Bob Clements Intl., offers her perspective.

Regarding wholegoods inventory,

Wholegoods Inventory Turns



About 53% of dealers say they are turning their wholegoods inventory 1-2 times a year and about 37% are achieving 3-4 turns annually.

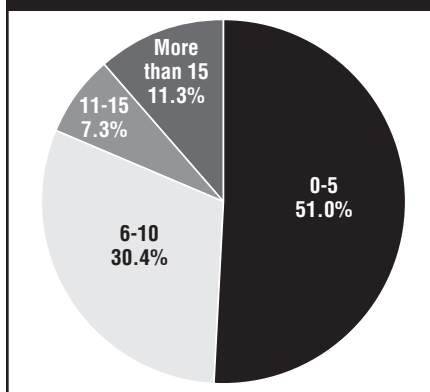
about 53% turn wholegoods 1-2 times a year and about 37% achieve 3-4 turns. (See the chart, "Wholegoods Inventory Turns" on this page.)

"Rural lifestyle dealers should be turning their equipment 2 times a year, on average," says Hey.

Regarding the number of brands they carry, about 51% of dealers carry 5 or fewer; 30% carry 6-10; 7% carry 11-15 brands; and about 11% carry more than 15. (See the chart, "Number of Brands Carried" on this page.) "It's not necessarily about the number of lines (while 15 is a lot). It's about not having competing lines. We want our lines to be complementary," says Hey.

Dealers shared their labor rates with 56% charging between \$76 and \$100 per hour, compared with 63% in last year's survey. Nearly 24% are charging \$101-125

Number of Brands Carried

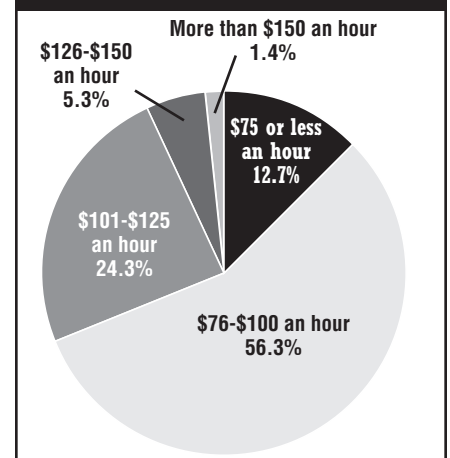


About 51% of dealers currently carry 5 or fewer brands, with 11% carrying more than 15 brands.

Product Lines Dealers are Likely to Add in 2020 (% of Dealers)

Rank	Equipment	%
1	Zero-Turn Mowers	35.4
2	Tractors (<40 HP)	30.5
3	Tractors (40-100 HP)	26.8
4	Utility Vehicles	24.4
5	Skid Steer Loaders	23.2
6	Compact Excavators	19.5
7	Hay Tools/Balers	17.1
8	Lawn Tractors	15.9
9	Power Hand Tools	15.9
10	Rotary Cutters	14.6

Dealers' Labor Rates



Fifty-six percent of dealers have a labor rate of \$76- \$100 per hour.

an hour, matching last year. (See the chart “Dealers’ Labor Rates” on page 5).

Hey says this about labor rates, “This is dependent upon the part of the country that they are in. We encourage dealers to be about 10% below the local Ford dealers’ labor rate. Dealers should ask themselves how much it costs to hire a good technician. I would say that most of our dealers are between the mid-\$80s and \$110 range,” she says.

Promoting Brand

Brand awareness and reputation are other intangible influencers of profitability as competition is only getting stronger from online retailers, big box stores and other dealerships.

Dealers indicate a boost in brand awareness. About 63% of dealers say that rural lifestyle customers have a brand in mind most of the time or almost always, up from 52% last year. (See the chart “Percent of Customer Visits in Which Specific Brand/Unit is Requested” on this page.)

Dealers are capitalizing on this opportunity, adding in their expertise to earn customers. About 78% say their product recommendations are accepted most of the time or almost always. This is holding steady as 77% of dealers indicated this last year. (See the chart “Percent of Dealer Suggested Product Recommendations Accepted” on this page.)

Influencing Factors

Dealers are investing in improving their service departments, with about 57% expecting to modernize this year. That about matches last year’s survey.

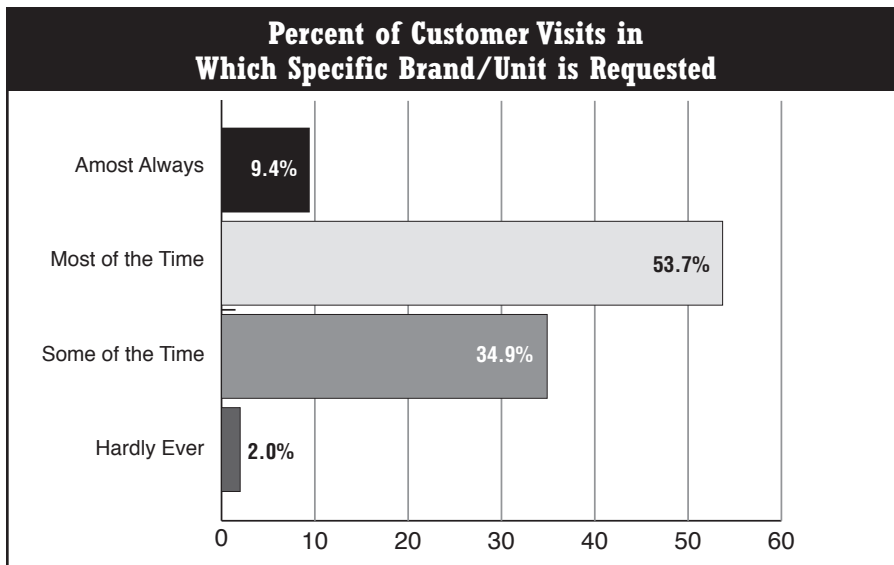
About 47% expect to improve their retail spaces this year, again in line with last year. Regarding investments in business systems, about 30% saying they are making investments this year compared with 37% last year.

The survey looks at other factors influencing revenues, including rental and financing. About 41% of dealers say they offer rental equipment, down from the 45% reported last year. The top 5 product categories rented are skid steer loaders, compact excavators, tractors 40-100 horsepower, tractors less than 40 horsepower and zero-turn mowers.

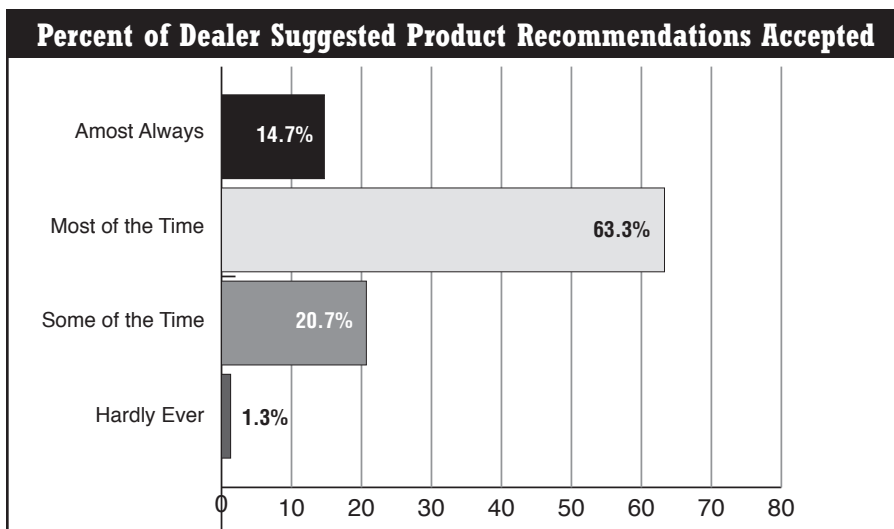
Sixty-six percent of dealers say customers seek financing from them at least half of the time, down from the 72% reported in last year’s survey. (See the chart “Percent of Purchases Where Financing is Requested” on this page.)

On a macro level, manufacturer research & development will drive excitement in the industry. Alyn Brown, *RLD’s* technology contributor, says dealers should use 2020 to get ready for increased demand for robotic mowers, autonomous mowers and connected machines. (Learn more at www.RuralLifestyleDealer.com/2020TechTrends.)

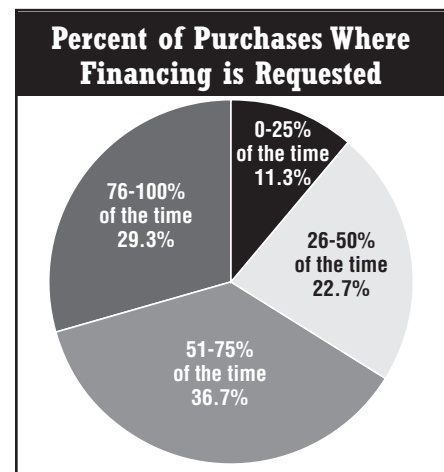
The U.S. housing market and unemployment rates are indicators as well, since the rural equipment market is



About 63% of dealers say that rural lifestyle customers have a brand in mind most of the time or almost always when they visit. That’s up from 52% last year.



About 78% of dealers say their product recommendations are accepted most of the time or almost always by customers, indicating a level of trust.



Sixty-six percent of dealers say that customers seek financing from them at least half of the time, down from the 72% reported last year.

Facts & Figures About 2020 Survey Respondents

The following information was provided by dealers who participated in *Rural Lifestyle Dealer's* 2020 Dealer Business Trends & Outlook survey. It is compiled to provide our readers and other interested parties basic demographic data on the rural equipment dealers who are serving the small acreage farm, hobby farm, large property owner, light contractor and lawn and landscape segment. (Percentages = Dealer Responses)

Geographic breakdown of survey respondents:

U.S.	91.3%
Canada	8.7%

Average employees per store:

1-20	74.8%
21-40	18.5%
41-60	2.7%
61+	4.0%

Full-time service techs employed by dealers:

1-5	56.4%
6-10	28.2%
10+	15.4%

Years dedicated to serving rural lifestyle customers:

Less than 1 year	0%
1-4 years	6.6%
5-8 years	9.9%
9-12 years	10.6%
13-16 years	4.7%
+16 years	68.2%

Growth/loss in rural lifestyle and lawn/landscape customer base since 2014:

+20% or more	15.3%
+5-19%	53.3%
Little/No Change	24.1%
-5-19%	7.3%
-20% or more	0%

Main business management systems represented in 2020 survey

DIS	20.3%
BASIC Software Systems	16.1%
HBS	11.2%
Charter Software	9.8%
CDK	9.1%

Main zero-turn mower brands represented in 2020 survey

Kubota	21.6%
Grasshopper	17.2%
John Deere	14.9%
Cub Cadet	14.2%
Hustler	14.2%

Main lawn tractors and subcompact tractors represented in 2020 survey

Kubota	22.1%
Massey Ferguson	21.3%
Cub Cadet	16.5%
New Holland	15.8%
John Deere	12.6%

Main compact/utility tractor brands represented in 2020 survey:

Kubota	24.4%
New Holland	24.4%
John Deere	18.5%
Massey Ferguson	17.7%
Cub Cadet	13.5%

Main utility vehicles represented in 2020 survey:

Kubota	27.5%
John Deere	20.6%
Cub Cadet	9.8%
Polaris	8.8%
Kawasaki & Mahindra	6.9%

driven by consumer sentiment. The year ended on a very positive note for housing, as U.S. homebuilders were the most confident they've been in 20 years, according to data from the National Assn. of Home Builders/Wells Fargo Housing Market Index.

And, what will the economy bring in 2020 for opportunities and challenges? Alex Chausovsky, director of speaking services with ITR Economics, says,

"The economy over the course of this past year has been slowing. We've still had an expansion, but the expansion was happening at a decelerating pace."

He expects a "brief and mild" low point to occur in the industrial economy (which is based in part on manufacturing) in mid-2020 and then we'll see the next rising trend in the economy. "To be ready to take advantage of that, you need to ask yourself questions

like, 'Do I have the right people? Do I have the right capacity? What kind of equipment or CRM do I need?'" he says. Read more about ITR Economics' forecast at www.RuralLifestyleDealer.com/2020EconomicForecast.

The national unemployment rate remains an issue for finding new talent, with December 2019 logging a rate of 3.5% compared with 4.0% for the beginning of 2019.

Lingering Concerns

The survey also asks dealers what they are most concerned about, looking at 10 areas. Finding good employees is a problem that's worsening. About 68% of dealers say the issue is what they are most concerned about. This is up from 61% in the 2019 survey. (See the table "Dealers' Most Pressing Concerns" on this page.)

Dealers say a disconnect from agriculture, lack of work ethic and lack of interest in working at an equipment dealership are all contributing factors to the issue. "Home grown" service techs are an answer from some. Read how Eis Implement of Two Rivers, Wis., is working with a county apprenticeship program to find and train young people interested in a career in mechanics. Go to www.RuralLifestyleDealer.com/EisImplement.

Healthcare programs and costs rank second with about 42% of dealers selecting it as their "most concerned about" issue. This is up from 32% in last year's survey. Low sales margin rank third this year, with about 42% of dealers saying this is the issue they are most concerned about. This is down slightly from 44.7% in last year's survey.

Dealers are showing increased concern about competition from big box and mid-box stores. About 22% say this is the issue they are most concerned about vs. about 16% who expressed that sentiment last year.

Changing Industry

Consolidation continued in the industry last year. Doosan Bobcat is set to acquire the assets of BOB-CAT mowers and the Steiner and Ryan brands from Schiller Grounds Care and re-entered the compact tractor market with 15 new models.

The Alamo Group acquired Dixie Chopper and is set to acquire Morbark.

Rank	Issue	Most Concerned	Concerned	Not Concerned
1	Finding Good Employees	68.5%	28.2%	3.4%
2	Health Care Programs and Costs	42.6%	41.9%	15.5%
3	Low Sales Margins	41.2%	48.7%	10.1%
4	Competition from Big Box (Lowe's, Home Depot etc.) or Mid-Box (Tractor Supply, Rural King, etc.) stores	22.2%	43.6%	34.2%
5	Manufacturer Pressure for Dealer Purity	20.1%	40.3%	39.6%
6	Warranty Claims	18.0%	49.3%	32.7%
7	Customer Access to Credit	12.8%	48.9%	38.3%
8	Equipment Shortages from Mainline Supplier	12.8%	41.6%	45.6%
9	Unemployment Rate	8.1%	38.9%	53.0%
10	Housing Market	4.7%	37.8%	57.4%

Yanmar acquired ASV Holdings. Toro acquired Charles Machine Works, the parent company of Ditch Witch, and is set to acquire Ventrac. And, General Transmissions acquired Actuator Electric Motors.

Paladin Attachments and Pengo Attachments joined a division of Stanley Black & Decker. Constellation Software acquired Charter Software. And, Bad Boy announced an investment from private equity firm The Sterling Group.

Other companies marked production milestones: BigDog Mower Co. celebrated 10 years, Billy Goat 50 years and Red Wing Software 40 years. Case celebrated 50 years of skid steer manufacturing. Country Clipper celebrated 30 years of manufacturing joystick-controlled zero-turn mowers.

STIHL marked its 75th millionth unit built in America. KIOTI expanded into Canada and Kubota introduced the M8 series, its largest tractor yet with over 200 horsepower.

What's Next?

Regardless of moderation, consolidation and other influences, the rural

equipment market remains strong. An *RLD* poll in December showed that 75% of dealers expected to be profitable in 2019. And, dealers have a myriad of ways they are looking to grow — online sales, rental, retail improvements as well as improving service department processes and expanding outside sales.

One dealer sums up the ongoing concerns of many others: "We're trying to handle the volume of work at the quality and customer service levels that is our legacy — but with a limited workforce."

Another dealer offers this outlook on opportunities: "Commercial battery products — California has a huge push to go battery and as of now there are only a few pieces in a few lines that really qualify as commercial. Landscape contractors are being pushed to go battery by their customers in a huge way.

"We're always on the lookout for brands that promote service and quality. By far, the largest opportunity for continued growth is to continue to build our dealership's brand and grow our dedicated customer base. No one can match our knowledge and service." **RLD**

Part 2

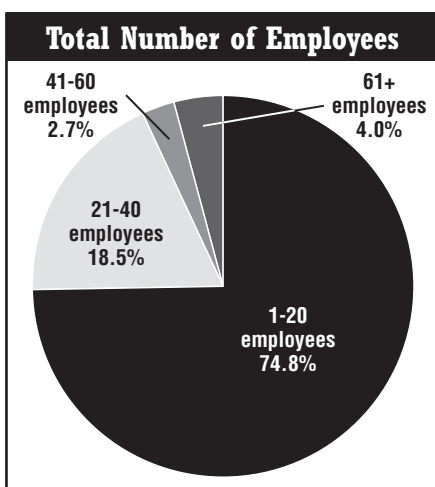
What's Influencing Growth in 2020

Dealers are expecting another good year for selling rural equipment, with about 85% of dealers saying 2020 will be as good as or better than 2019.

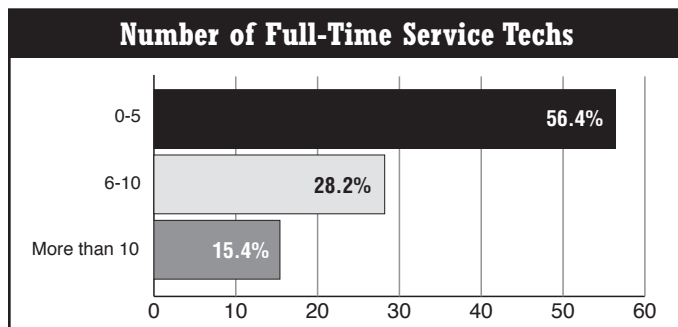
There is some moderation showing up this year in terms of revenue, however. Last year, 88% of dealers expected 2019 to

be a “good as or better” year. Looking at aftermarket revenues, about 91% of dealers are expecting 2020 to be as good as or better than last year, compared with 93% in the 2019 survey.

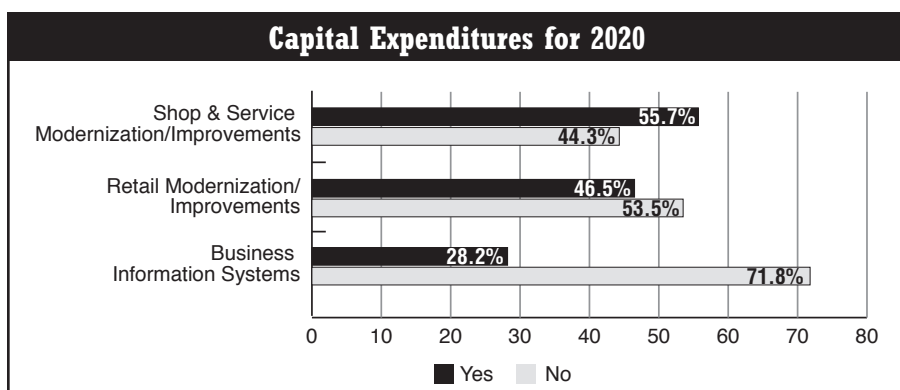
The following charts dig deeper into the data gathered from dealers for 2020 and provide 10-year trends on key metrics. **RLD**



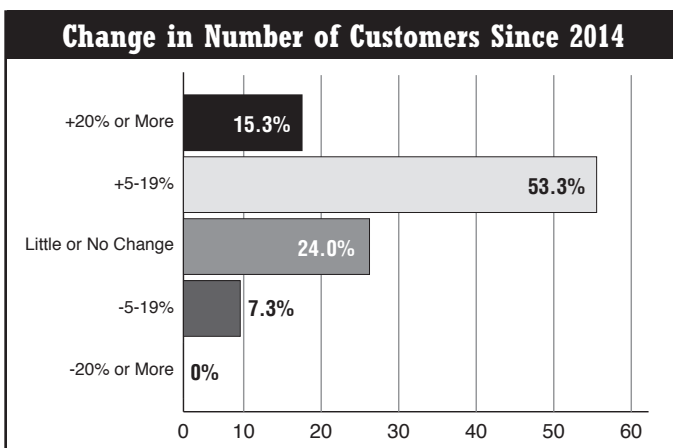
About 75% of rural equipment dealers have 20 or fewer employees.



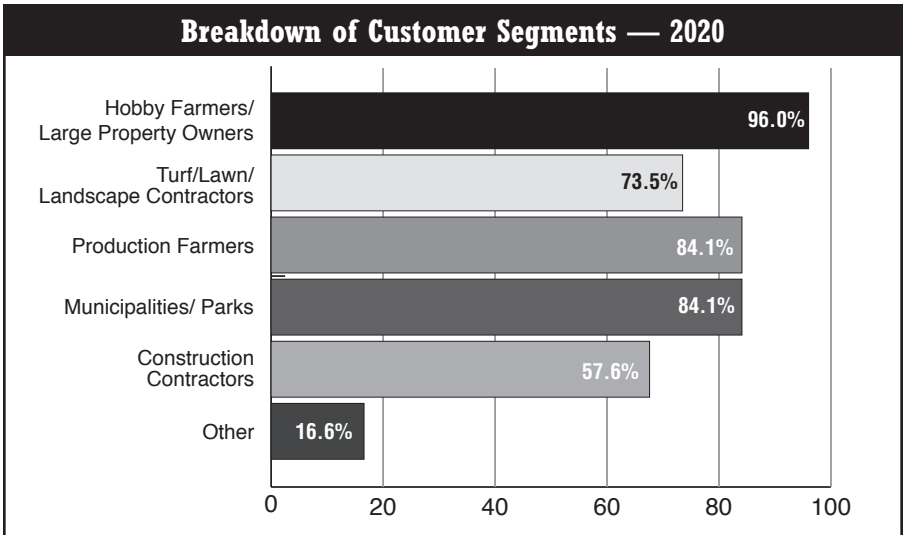
About 56% of dealerships employ between 5 or fewer full-time service technicians.



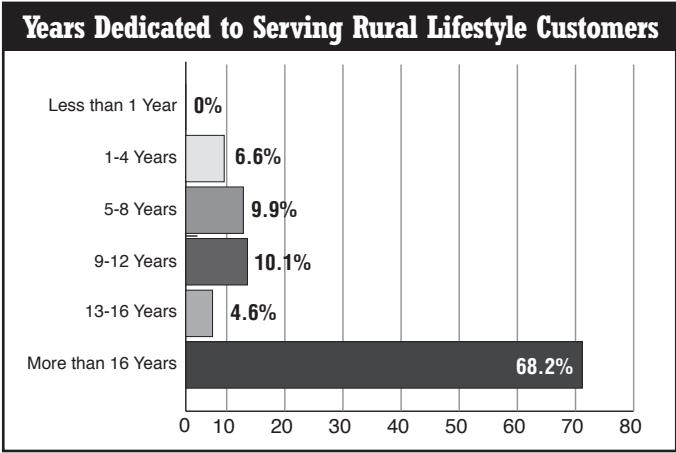
About 56% of dealers expect to make improvements to their service departments.



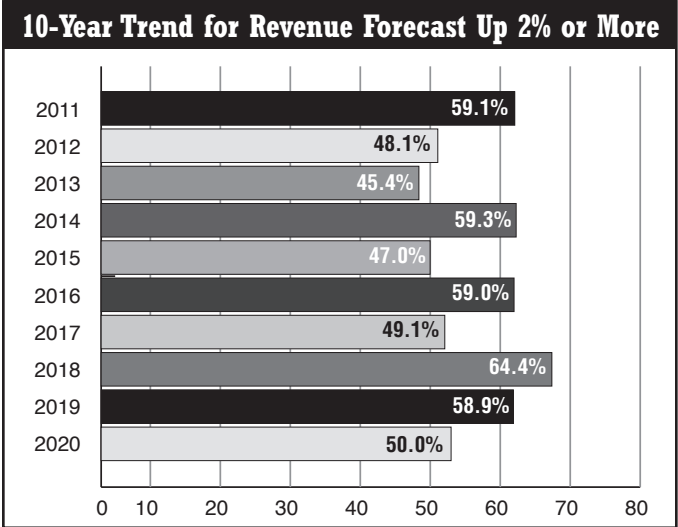
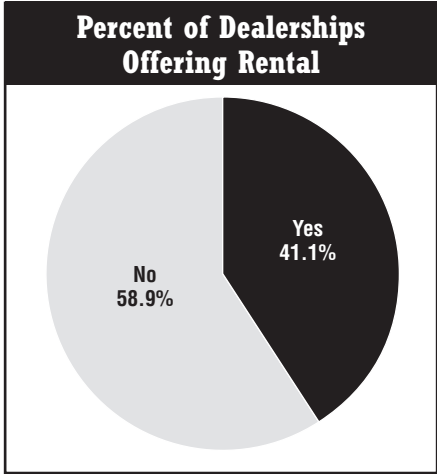
About 53% of the responding dealers say their markets have grown by 5-19% in the last 5 years and about 15% have seen market growth of 20% or more.



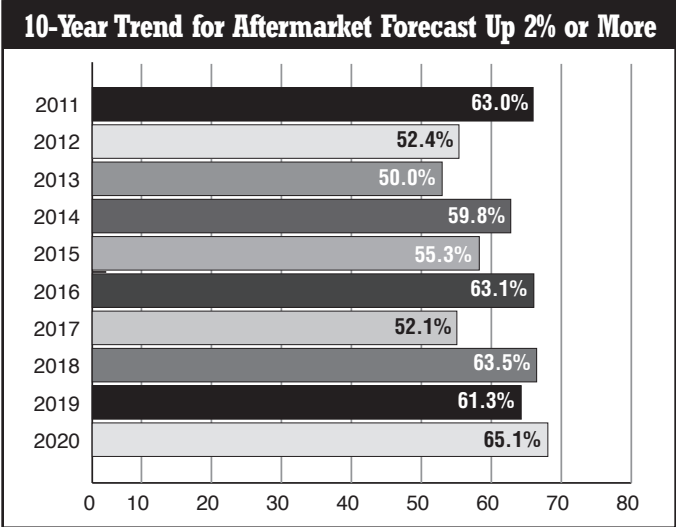
Nearly all of the respondents serve the hobby farm/large property owner segment, with 84% serving production farmers as well as municipalities/parks.



More than 68% of dealers have been serving the rural lifestyle segment for more than 16 years.



Dealer forecasts for revenues to be up 2% or more are down from 2019. Forecasts have ranged from a low of 45.4% for 2013 to a high of 64.4% in 2018.



Dealer forecasts for aftermarket revenue to be up 2% or more are at a 10-year high. Forecasts have ranged from a low of 50% in 2013 to a high of 65.1% for 2020.

Product Lines with Most Potential to Increase Unit Sales in 2020 (% of Dealers)

Rank	Equipment	+2% or More for 2020	+2% or More for 2019
1	Zero-Turn Mowers	59.3	66.7
2	Tractors (<40 HP)	47.4	59.8
3	Rotary Cutters	38.6	46.5
4	Chain Saws	34.8	29.9
5	Hay Tools/Balers	34.7	32.6
6	Tractors (40-100 HP)	33.8	39.7
7	Skid Steer Loaders	32.5	34.1
8	Snow Removal Equipment	31.0	29.4
9	Utility Vehicles	30.9	48.2
10	Compact Excavators	27.9	New for 2020
11	Power Hand Tools	27.5	29.4
12	Front-End Loaders	25.2	36.3
13	Tillers	23.1	30.2
14	Lawn Tractors	22.8	36.0
15	Finishing Mowers	21.6	20.2
16	Seeders/Drills	16.1	14.1
17	Scrapers/Graders	16.0	17.9
18	Spraying Equipment	15.3	9.6
19	Backhoes	14.7	22.4
20	Generators	13.4	17.5
21	Manure Spreaders	11.6	10.4
22	Post-Hole Diggers	11.4	11.9
23	Fertilizer Spreaders	10.0	10.2
24	Wood Handling Equipment	9.6	10.9
25	ATVs	8.5	13.5
26	Feed	6.0	4.3
27	Fencing	2.3	5.2

Product Lines Dealers are Likely to Add in 2020 (% of dealers)

Rank	Equipment	%
1	Zero-Turn Mowers	35.4
2	Tractors (<40 HP)	30.5
3	Tractors (40-100 HP)	26.8
4	Utility Vehicles	24.4
5	Skid Steer Loaders	23.2
6	Compact Excavators	19.5
7	Hay Tools/Balers	17.1
8	Lawn Tractors	15.9
9	Power Hand Tools	15.9
10	Rotary Cutters	14.6
11	Generators	13.4
12	Snow Removal Equipment	13.4
13	Chain Saws	11.0
14	Front-End Loaders	9.8
15	Finishing Mowers	8.5
16	Manure Spreaders	8.5
17	Tillers	8.5
18	Backhoes	6.1
19	ATVs	4.9
20	Post-Hole Diggers	4.9
21	Seeders/Drills	4.9
22	Wood Handling Equipment	4.9
23	Feed	3.7
24	Scrapers/Graders	3.7
25	Spraying Equipment	3.7
26	Fertilizer Spreaders	2.4
27	Fencing	1.2

10-Year Trend: Product with Most Potential to Increase Unit Sales

Year	Product
2011	Zero-Turn Mowers
2012	Utility Vehicles
2013	Tractors <40 Horsepower
2014	Zero-Turn Mowers
2015	Zero-Turn Mowers
2016	Zero-Turn Mowers
2017	Zero-Turn Mowers
2018	Zero-Turn Mowers
2019	Zero-Turn Mowers
2020	Zero-Turn Mowers

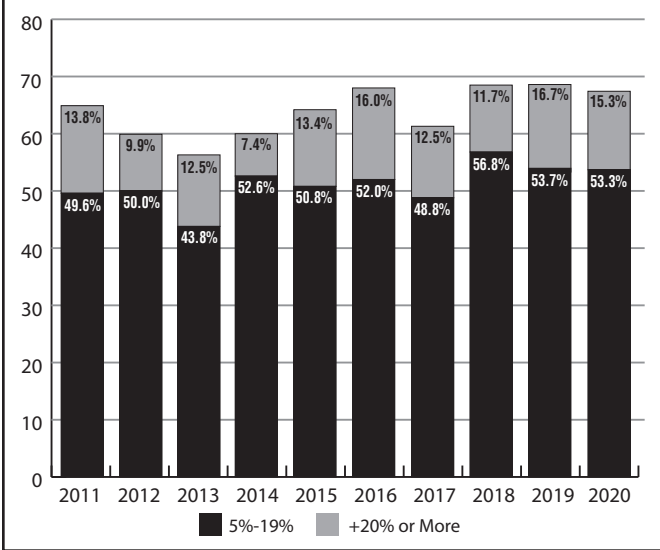
Zero-turn mowers have dominated dealer forecasts for products with the most potential to increase unit sales over the last decade.

10-Year Trend: Products Dealers Plan to Add

Year	Product
2011	Tractors <40 Horsepower
2012	Tractors <40 Horsepower
2013	Tractors <40 Horsepower and Tractors 40-100 Horsepower
2014	Zero-turn Mowers and Tractors 40-100 Horsepower
2015	Tractors < 40 Horsepower
2016	Utility Vehicles
2017	Utility Vehicles
2018	Utility Vehicles
2019	Tractors <40 Horsepower
2020	Zero-Turn Mowers

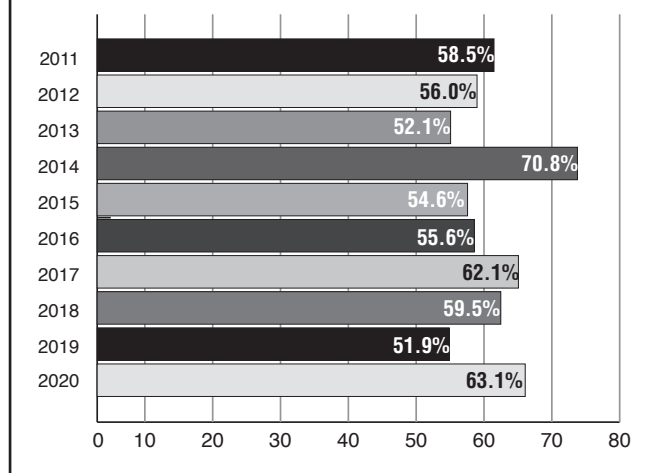
This year, zero-turn mowers top the list of products dealers plan to add as well as the products with the most potential to increase unit sales.

10-Year Trend: Growth in Market (5%-19% or +20% or more)



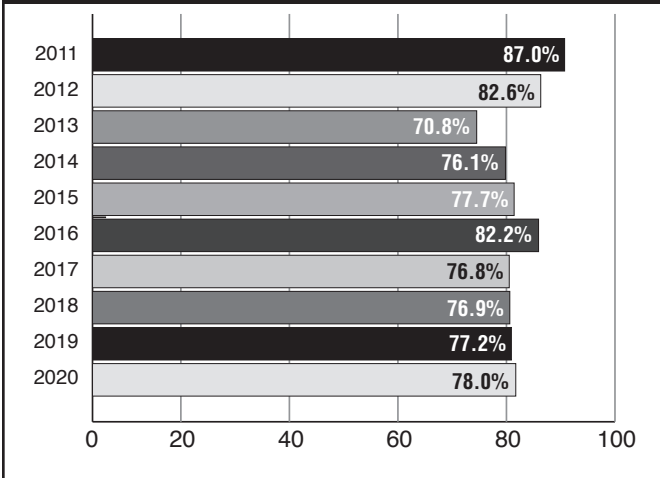
The rural equipment market has shown strong growth over the last decade. More than 15% of dealers in the most recent survey say their market has grown by 20% or more.

10-Year Trend: Brand Requested Most of the Time or Almost Always



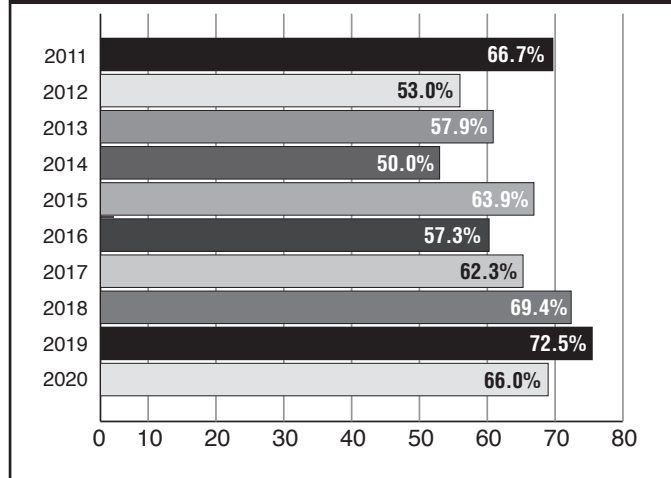
Dealers reported stronger brand recognition in this year's survey. About 63% of dealers say customers requested a particular brand most of the time or almost always when they visited their dealerships, compared with about 52% in the last year's survey.

10-Year Trend: Product Recommendations Accepted Most of the Time or Almost Always



Dealers have consistently earned their customers' respect over the last decade, with 78% reporting that their recommendations are accepted most of the time or almost always.

10-Year Trend: Customers Seeking Financing at Least Half of the Time



Two-thirds of the dealers this year say customers request financing from them at least half the time. That's down slightly from last year.

Part 3

Looking Ahead: Economic Forecast & Technology Trends

Be Ready for the Mild Recession Forecast in Early 2020, Followed by Upturn

Lizzi Lovdal
Editorial Associate

Rural Lifestyle Dealer talked with Alex Chausovsky of ITR Economics in late December to help dealers prepare for the economy in 2020 and beyond. He says dealers should be ready for a slight economic downturn in the industrial economy expected in the first half of 2020, followed by a rising trend later in the year.

Learn more about what's ahead in this Q&A.

Rural Lifestyle Dealer: What economic trends are you forecasting for 2020 and 2021?

Alex Chausovsky: The economy over the course of 2019 has been slowing, meaning the volume of economic activity has been expanding, but at a decelerating pace. The industrial production index growth peaked in October 2018 and declined in 2019. We expect the pattern to continue in the first half of 2020.

We are actually expecting a mild and brief recession in the industrial sector, culminating in a cyclical low occurring in the mid-2020 timeframe. The good news is that it will be brief and mild. By the second half of 2020, we're expecting the emergence of the next rising trend in the economy.

We pay attention to a lot of different leading indicators and some of them are already starting to confirm that expectation of a rise. For instance, the housing market is known to be the canary in the coal mine and single-family housing



Alex Chausovsky is Director of Speaking Services for ITR Economics.

starts typically lead industrial production by about 8 months. Housing right now is still down, year over year, but when you look at the short-term, the previous 3 months shot up into positive territory compared with the same time last year.

"By the second half of 2020, we're

expecting the emergence of the next rising trend in the economy."

The housing market should flourish over the next 3-6 months and that is a good sign for an upside momentum to develop in the industrial economy during the second half of next year. We believe that 2021 will be the next growth year.

RLD: What should dealers do now in advance of the expected mild recession and then the upturn?

Chausovsky: Our main advice to businesses is to reflect and proactively change your behavior to accommodate this slowdown, but don't lose track of forward-thinking momentum. You have to think half a business cycle ahead and put together a plan now that you can act on in the mid-2020 timeframe. This will ensure your company can take full advantage of that next rising trend.

What I mean by that is that you need to ask yourself questions like, "Do I

Dealer Takeaways

- » Be ready for a slight economic downturn in the industrial economy expected in the first half of 2020, followed by a rising trend later in the year. A more significant downturn is expected by 2022.
- » Reflect and proactively change your behavior to accommodate this slowdown, but don't lose track of forward-thinking momentum.
- » A major depression is still forecast for the 2030 timeframe.
- » The upcoming election will not have a significant impact on the economy unless there is a major stimulus of activity in advance of the election.
- » The current administration is focusing on stimulating the economy, not paying down debt, so it's important to understand that the recent tax reforms came at a significant price. The government is managing for now by paying just the interest on the debt, but we are at historically low interest rates.

have the right people? Do I have the right capacity? What kind of equipment do I need? Do we have a CRM system as well as marketing plans in place?" Addressing these questions will help you gain a competitive advantage during the next rising trend, outperform competitors and gain market share.

RLD: Can you explain more about a business cycle? What kind of timeframe are you talking about?

Chausovsky: There's not a specific period of time that we look at because some cycles are longer than others. However, a business cycle, from peak to trough, is generally about 12-18 months.

For instance, the last peak in the industrial production index happened in October of 2018, and we expect a mid-2020 cyclical low in the next business cycle transition. We've gone from peak to low over the course of 20-22 months, but this cycle has been longer than normal due to the positive impact of the tax reform package implemented in 2018.

RLD: We're familiar with the idea of 5-year plans and long-term strategic plans, but dealers should also be developing plans to address the idea of a business cycle, is that right?

Chausovsky: Absolutely. Five-year plans are much broader and more strategic in nature. There is generally a different set of initiatives that you enact for a 5-year plan than you would for a business cycle plan.

For the 5-year plan, think about a product roadmap and speculate which markets you want to be in 5 years from now. For shorter term planning, I would look at such things as whether I have the right staffing needs to meet demand over the next year and a half. Do I need to make any investments in my facility or equipment? What do I need to do right now to alleviate any constraints to position myself for that next cyclical rising trend in the second half of 2020 and into 2021.

RLD: What kind of effect will the 2020 election have on the economy?

Chausovsky: There is little correlation between the political process itself and the business cycle. The election will not have a significant impact unless you have a major stimulus of activity in advance of the election. President Trump has talked about enacting another

tax cut targeted at the middle-class, or we could see the passage of a bipartisan infrastructure bill that would stimulate economic activity, but the election itself is not going to influence the economy.

From 1976 to the present, the average GDP rate-of-change during Republican administrations was 2.81%; for Democratic administrations the average was 2.85%. All of which leads us to the point we strive to make in our presentations and conversations: it's policies and what ultimately becomes law or rule or executive order that can (at times) matter, not the party.

RLD: What about the tariffs? How do they factor into the economy and your forecasts?

Chausovsky: There's been a lot of noise about the Phase One deal with China, but we're not expecting major

tax reforms came at a significant price.

We're going to incur between \$1.5 and \$2 trillion in additional federal government debt over the next 5 years or so. We're now over \$23 trillion in debt and continuing to add about a trillion dollars every year — and that amount is expected to grow over time. The real question is what is the straw that breaks the camel's back? The government is managing for now by paying just the interest on the debt, but we are currently at historically low interest rates. The amount that we spend on the interest-only portion of our debt is actually going to eclipse the total amount of U.S. defense spending in the near future.

Going back to your original question, our expectation for the Great Depression in the 2030s has not only remained, it has gotten stronger.

“By the second half of 2020, we're expecting the emergence of the next rising trend in the economy...”

changes to the trade environment over the course of 2020. As part of the deal, the U.S. will lower one set of tariffs from 15% to 7.5% if China carries through on what they have committed to do. However, that's a relatively small portion of the overall bucket of products that are currently under tariff.

There's approximately \$400 billion worth of Chinese imports into the U.S. that are under tariff right now. Roughly \$250 billion is under a 25% tariff. The remainder is at 15%. We see the Phase One deal as largely a symbolic gesture, indicating that the tariffs are not going to be intensified further, but it's not going to make a huge difference in terms of economic performance.

RLD: Are you still forecasting a major depression close to 2030?

Chausovsky: Yes, that forecast is still very much in play. In fact, the tax reform package only reassured us that we are on the right track with our expectations. We now have a Republican party that is not focused on addressing the debt. Instead, they are focusing on stimulating the economy, so it's important to understand that the

RLD: We talked about what businesses should be doing to prepare, what should consumers be doing?

Chausovsky: If you look further out beyond the timeframe of 2021, then we're talking about a downturn coming in the economy. In the second half of 2022 and 2023, we're actually expecting a more substantial downturn. It will likely feel like the most negative economy we have seen since 2009, although it won't be nearly as bad.

My advice to consumers is to make sure you are living below your means, not spending more than you're earning, and saving money. And more importantly, you need to put your money to work. You have about 10 years to develop a nest egg to be able to weather the storm in 2030. Continue to pay down debt, especially debt with variable interest rates like credit cards. Look beyond that as well to student loans, auto payments and mortgages.

There is a bright economic future for the U.S. on the other side, so think of downturns in terms of opportunity. To take real advantage of the economic cycle, you want to do something that

is actually counterintuitive for most people. You have to adapt that “buy low, sell high” mentality in everything that you do.

When the economy is in a downturn, that’s actually a really good time to be investing, especially at the low point in the business cycle, whether that’s in your business or in your personal finances.

Looking back at the low point of 2009, there were people who had cash on hand and were being aggressive and

buying when everybody else was running for the hills. Those people are all much wealthier today. So, my advice is to be prudent and live below your means; not only to save, but to invest and position yourself to take full advantage of the downturns.

RLD: Is there anything else you’d like to share?

Chausovsky: The one last point I will make is that there’s a great deal of noise that exists in the world today,

whether that’s political noise or the noise from all the various competing media outlets. You have to question where the facts and the data are coming from that are being reported.

More importantly, you need an independent, reliable and apolitical source of information that will cut through all that noise and help you understand what’s important. So, I hope that your readers know that ITR Economics can be a source like that for them. **RLD**



3 Tech Trends for 2020 & How You Can Stay Relevant

Lynn Marcinkowski Woolf
Managing Editor

Alyn Brown, technology consultant for the Outdoor Power Equipment Industry and *Rural Lifestyle Dealer's* technology columnist, says 2020 will be a time for dealers to get ready as electrification, autonomous mowers and connected machines become entrenched in the market.

“This is the transition year where manufacturers are going to be sorting out the details on this technology. And, dealers should be figuring out how they are going to generate revenue and adjust their businesses to stay relevant and profitable,” Brown says.

Here are the top 3 technology trends, according to Brown, and how dealers can carve out their niche.

1. Commercial Electric Mowers

Dealers will need to strongly consider adding a commercial electric line and a crucial part of that is being prepared to repair the machines. Brown says dealers have been slow to take on

electric mowers because of diagnostic equipment requirements and added complexity of the machines.

“They have good reasons because none of these battery-powered machines have been easy to work on and that has to fall on the OEMs to change,” he says. And, dealers need to demand that manufacturers offer the level of training they need to adapt quickly.

“Wrench turning is going to be replaced by computer diagnostics,” he says. Brown encourages dealers to reach out to tech schools and even economic development groups who have a vested interest in helping developing the local workforce.

2. Autonomous Mowers

Most of the residential autonomous mowers available today operate based on underground boundary wires, providing an opportunity for dealers to offer this service. “They’re becoming easier to install, they work better and the prices are coming down,” says Brown.

The installation services are just one way that dealers can generate revenue. Service plans should also be bundled

in, where dealers pick up the machines for cleaning, blade sharpening, etc., and then deliver it back to the customer.

“Have a couple of these autonomous mowers running around in front of your business. People love seeing them and you’ll get people to stop,” he says.

Vision-based, GPS-guided technology, being demonstrated now for larger commercial machines, will make its way to the residential market over the next couple of years, eliminating the need for boundary wires — and increasing safety. Dealers who have established a niche will have a head start in the market.

“I think we will see an increase in customers who are interested in this type of technology for their yards. They’ll want to know if it’s right for them and how it works. I see this technology improving exponentially over the next few years,” says Brown.

3. Connected Machines

Consumers are already used to their vehicles alerting them to mechanical issues or when it’s time for service, so connected technolo-

gy (Internet of Things or IoT) should be readily embraced by consumers, says Brown. “It plays into getting this overall user experience right for the high-level consumer, entry-level commercial type machine. The customer has invested a substantial amount of money, and they will have certain expectations about how that machine performs and how that machine is maintained,” Brown says.

Dealers can integrate their services into this scenario, sending a text or email message to the customer, offering to do the scheduled maintenance. The message could even include an option

for scheduling the service appointment. Or, they could suggest blades, filters, etc., that they could have ready for pick up. To make this seamless for the customer, dealers will have to improve the “hand off” between service and sales as the customer will move between the two departments.

Bonus: A Zero-Turn Mower Without a Lap Bar

Differentiation is a challenge in the zero-turn mower market, where almost every machine looks and operates the same way. And for newcomers, the standard lap bar design is unfamiliar

and a barrier to purchase.

Brown says that the new models of mowers with electronic drive systems open up new design opportunities, such as electronically-controlled joysticks, skid-steer type levers — or perhaps someday even autopilot or autonomous capabilities. These machines can also offer functionality common on cars, such as traction control, straight-line driving, speed sensitive capabilities or back-up sensors.

“The electronic drives for electric zero turns are building blocks to what we’re going to be able to do in the future,” says Brown. **RLD**

Part 4

Dealers Sound Off on Growth Opportunities, Concerns for 2020

How Rural Equipment Dealers Plan to Grow

Rural Lifestyle Dealer’s Dealer Business Trends & Outlook survey asked dealers to share their top opportunities for 2020. The answers spanned a wide range of topics, which shows dealers are improving their businesses from all angles.

Here are the responses, grouped into topics. Dive in and see how others are growing their dealerships in 2020.

Locations, Marketing, New Product Lines

“New location opened in the heart of a highly populated, large acreage area. Expanding on current brands to complement a wider customer base and markets.” ... “Improving utility tractor and skid steer market share.” ... “New locations.” ... “We are still growing our first location, but have the opportunity to expand into another location down the road that will help us out also.” ... “Getting into new markets and different customers, such as more commercial

landscapers and government accounts.”

“New location, process development and follow-up processes. Customer targeting tools” ... “Perfecting the business model, then leaving the option for a second location” ... “New locations, new technology, expanding rental offerings.” ... “New locations and expanded offering of small construction equipment.” ... “New location for existing business.” ... “We built a new store last year after being in our old location for 33 years. Our future growth will come from us taking advantage of the new dealership, added employees, expanded reach in our current market, process changes in sales and service, and new marketing efforts by bringing in marketing manager.”... “A refreshed approach to our dealership.”

“We’re going to see every customer in our area no matter if they have done business with us or not.” ... “Expanded customer segments within existing territory.” ... “New brand and a new larger dealership facility.”

Technology, Sales, Online Sales

“New technology.” ... “Bringing on additional sales and service techs. More online interaction.” ... “The ‘interweb’ is probably the only way to increase sales. Our area is lousy with dealers. In a 60-mile radius of our dealership, there are over 50 dealers.” ... “Online sales and streamlined service flow.” ... “Online sales and amazing customer service” ... “Robotic mowing and online sales.” ... “Online marketing is now the driving force in sales.”

“Online, the under-40 segment and technology, that’s where I feel our growth is.” ... “Online sales, but price stability is very important. With tariffs, prices are constantly changing, so it’s hard to stay ahead of the game. Here’s an example: We sold one product most of year at \$995.00 and the replacement cost to restock is \$1,059.00. Did we really make anything and the new price slowed sales instantly.” ... “Improved

online parts sales.” ... “We plan on implementing a new outside salesperson and we desperately need a good technician.” ... “Increased used equipment sales.”

Battery-Powered Equipment

“Commercial battery-powered products. California has a HUGE push to go battery and as of now, there are only a few pieces in a few lines that really qualify as commercial. Landscape contractors are being pushed to go battery by their customers in a huge way. Some cities and agencies are going battery only and if you want their business, you are going to have to figure out a way to go battery. We’re always on the lookout for brands that sell SERVICE and quality. That keeps us in business long term. Generally speaking, we create our own margins using a math formula based on cost. By far the largest opportunity for continued growth is to continue to build OUR brand and grow our dedicated customer base. No one can match our knowledge and service.”

“New zero-turn products by Cub Cadet. We’re considering adding a compact tractor line and expanding into battery powered tools.” ... “Although we do not sell any battery powered products, I believe this will soon be a growth area.” ... “Solar batteries and solar panels, also new batteries.”

Service, Rental

“Improved service billing processes and practices. Improved inventory control and margins. Increased home growth.”... “Increased service depart-

ment revenue” ... “Increase in service sales due to less new equipment being sold.” ... “Improvements with personnel in our parts and service departments will drive our growth going forward.”

“Biggest opportunity for growth is to be able to handle the volume of work in our service department. There are fewer and fewer ‘old school’ shops and shade tree repair guys. And in our area, urban growth is exploding. The need to accommodate increased customer volume is huge. Our operating space is limited by the municipality and regulations, so we don’t have an easy solution to create more space for our operation at our current location. We look to technology, online services, remote service calls and anything else that we can employ. We have been in the business for 31 years and thinking outside the box has allowed us to do our best to keep up with demands but it’s a daily challenge.”

“Improved margins, new products, changes in service” ... “Conquest accounts, meaning customers we have not dealt with in the past. We’re taking over some John Deere customers since the local JD dealer is doing poorly with service. We have a lot of requests coming from outside our normal trade area looking for more support in the big three: sales, parts and service.” ... “I am focused on turns in our shop, customer service and growing our rental fleet.” ... “Changes in service department efficiency and work order processes. Possibly new lines to fill in where other manufacturers have stopped manufacturing.”

“Improving our financial position, use less floor planning, reduce expens-

es, pay down debt, plan for using our cash instead of the bank’s and grow at the speed of cash.” ... “We just completed a stock buyout of relatives and now have the next generation breathing some new life back into the business.” ... We are focusing on parts and service as growth areas. If the economy goes down, these will be the areas that will carry us.” ... “Absorption and rental.”

Margins and More

“Improved margins, expense control” ... “The biggest opportunity for growth is other dealers closing up, which allows us to raise our margin.” ... “Hemp” ... “Reputation of quality products and product reliability. Education of customers.” ... “Taking on the KIOTI tractor line. Building a new shop on our large acreage to accommodate growth.”

“Our number one growth opportunity is from MEGA Dealers that keep buying other dealers. The larger they get the more we sell. Rural lifestyle customers want to be treated with respect and like dealing with single-store, family-run businesses. Also, the small startup dealers that handle ‘off’ brands, keep switching brands or coming and going out of business. That helps us as we have only been in the business a short 68 years.”

“I don’t know what opportunities are left for the smaller business. Or, I’m just old and tired. I once worked the dealership up to a million-dollar-a-year business and lost my butt because of a drought the next year and that was before the internet.” **RLD**

What Rural Equipment Dealers are Concerned About

Rural Lifestyle Dealer’s Dealer Business Trends & Outlook survey asked dealers to share their top concerns for 2020. Here are the responses, grouped into topics. Dealers also share how they are addressing these concerns to stay profitable in the year ahead.

Finding Employees

“Taxes, financing employees.” ... “Labor shortage.” ... “Attracting young-

er employees. Competing with online companies.” ... “Finding another qualified service technician. Probably have to attract him from another dealer.”

“Top concern is finding good employees. It seems that I am always hiring. Offering a competitive wage and health benefits help. We’re also trying to hold our margins and part of that is the cost of tariffs and how to absorb them. For example, Honda generators were hit hard. We’re keeping an eye open to

replace STIHL as they have now gone over completely to box stores and are not the quality they used to be. Also, Honda has gone head first into box stores. Echo/Bear Cat has a great line of generators and I’ll bring them in. They are the best distributor we have by far.”

“Handling the volume of work at a quality and level of customer service that is our legacy, but with a limited workforce. There are fewer children on farms now and those folks used to be

our pipeline to good employees.” ... “We need to be knowledgeable for all our customer groups and have a work ethic that fits our own and customers’ expectations. We continue to train all that we can and support 2-3 apprentices as well as co-op students from our local high schools. But even at that, a reliable and capable tech takes 5-10 years to really know the variety of equipment that comes in our doors.”

“Keeping quality employees, parts people who are qualified. Support from manufacturers has been inconsistent.” ... “Finding good employees and getting them trained properly. I am hiring an expert to assist.” ... “Economy, local drought conditions and finding qualified & experienced employees.”

“Personnel has been an ever-growing concern over the last several years. The strengthening job market and state-mandated \$15/hour minimum wage being phased in has made it very difficult to find and retain good talent. We’ve always offered a comprehensive benefits package, however, lately we have had no choice but to raise our starting pay grade for new hires. Employee retention remains an issue nonetheless.”

“I employed a motorcycle tech for 5 years and he decided to go back to motorcycles, for less money, because of the prestige of working on them instead of power equipment. He told me stories of my customers that would bring their bikes in and get thousands of dollars’ worth of accessories and complain about me charging them \$3 for a spark plug. My next concern is the internet! Because everyone is looking for a DEAL. How do you compete? The only way I see it is SERVICE and maybe cut back on the number of off brands we work on.”

Economy & Politics

“If Democrats regain control of our government, I expect the economy to go into a recession or depression.”... “High taxes for small business.” ... “Economy, political environment. Watch inventory levels and remain flexible.” ... “Election, stay positive and roll! Riding the Trump train!” ... “Local economy, leadership of government” ... “A Democrat that is elected presi-

dent.” ... “Commodity prices and global trade.” ... “Stability in trade deals and overall economy. There is no stable planned direction for how we are going to get this settled.”

“The stock market.” ... “The fear of the unknown — Trump, China, the economy, the election. Just continue to fight for every deal.” ... “Water storage and California government, can’t really combat either.” ... “Overall economic growth, housing, grain and cattle market” ... “Political uncertainty and economic growth, interest rates, taxes, etc., can continue growth in the economy or stop it in a heartbeat. Also, the media changes business more than anything. If they keep saying we are going in a recession, people will stop spending. Customers tell me they quit watching the media and do what is best for them. We need positive media vs. all the negativity people are tired of hearing doom and gloom every day.”

“Election year is a concern, may be some pushback.” ... “Farm economy coming back up. If farmers have money, they spend money.” ... “The economy and weather. And neither of them can be predicted very well! We will watch them closely and be conservative with our inventory levels.” ... “Poor economy due to elections. We plan to reduce inventory on wholegoods.” ... “U.S./Canada relationship which affects the currency exchange and tariffs” ... “Planning for slow steady growth. Being the go-to place to buy, service and to work.”

Costs & Margins

“Manufacturer relations. Poor leadership and decision-making from the manufacturer. Product quality issues. Manufacturers push for market share regardless of dealer margin.” ... “Tight cashflow at the moment (every winter) but fewer paychecks to write and more enthusiasm may help.” ... “Shop expenses and combating “shade tree mechanics.” ... “Lower wholegoods sales. Making sure to communicate with customers to identify possible needs.” ... “Customers have too much credit card debt and low unemployment.” ... “Manufacturer pressure for orders.” ... “Labor costs required by law, have to raise prices. Cost of regulations.”

“Many are going to online ordering for convenience and prices. Parts are very easy to find online for nearly all products. The growing online price comparison and buying is the greater threat for rural dealers as the volume and margins creep lower.” ... “Customer financing: Salespeople need to find the right tool or used equipment to fit their needs rather than new, due to pricing. Parts and service: Do a lot better at having customer’s financing in place to prepare them for higher expenses. (They have held back on spending and equipment is going to have a larger amount of money invested to bring it back to good working order.” ... “E-commerce parts sales of aftermarket parts that appear to be the same as OEM.”

“Financial stability for consumers. Already downsizing orders for next year as I have concerns.” ... “Top concerns are manufacturers denying legitimate warranty claims, product quality and parts availability.” ... “Used equipment sales — will just have to be diligent and have already begun being very aggressive in the used equipment market.”

“Healthcare costs and employee satisfaction.” ... “Health insurance costs. Many of our people are getting older and these costs are getting out of hand.” ... “Cost of healthcare. It’s 4 times higher than 3 years ago.” ... “Economy, healthcare and interest rates. Not a lot to do except to shop rates and vendors for best deals.” ... “Weather. It was a bad year and half of the ground went unplanted.”

Marketing & Competition

“We moved outside of town instead of being in the city center. We are afraid our parts sales will drop, so are advertising heavily.” ... “Dealers selling outside their area of responsibility.” ... “Adjusting inventory levels to current market conditions.” ... “Adjusting to our new location. We will make the move before the season starts and run promotions early to get customers informed of the move.” ... “Same brand competition from other dealers.”

“More competition from box stores and less profit due to manufacturer pricing. Also, more competition from

internet sales of parts via Amazon & eBay.” ... “More community legislation on both noise and air pollution of fossil-fueled products bans on blowers and lawn equipment.” ... “Road construction. We will market differently to try and keep us in people’s minds.”

“Concerned about year-over-year

growth when business has been strong in recent years. Competition is strong and we are working hard to differentiate ourselves. Tractors are new to us and we must address these customers differently than our traditional construction/landscape customers. We are hiring a specialist who can focus on

this market.” ...“Brand purity, strive to improve market share.” ... “Getting our name and location known to a wider population. We are participating in trade fairs and local events and advertising in papers and radio media.” ... “Adapt & spend money to compete through online sales.”

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