2019 Precision Farming Dealer Benchmark Study Results

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PRECISION FARMING DEALER

Dealers Again Exceed High-End Precision Revenue Projections

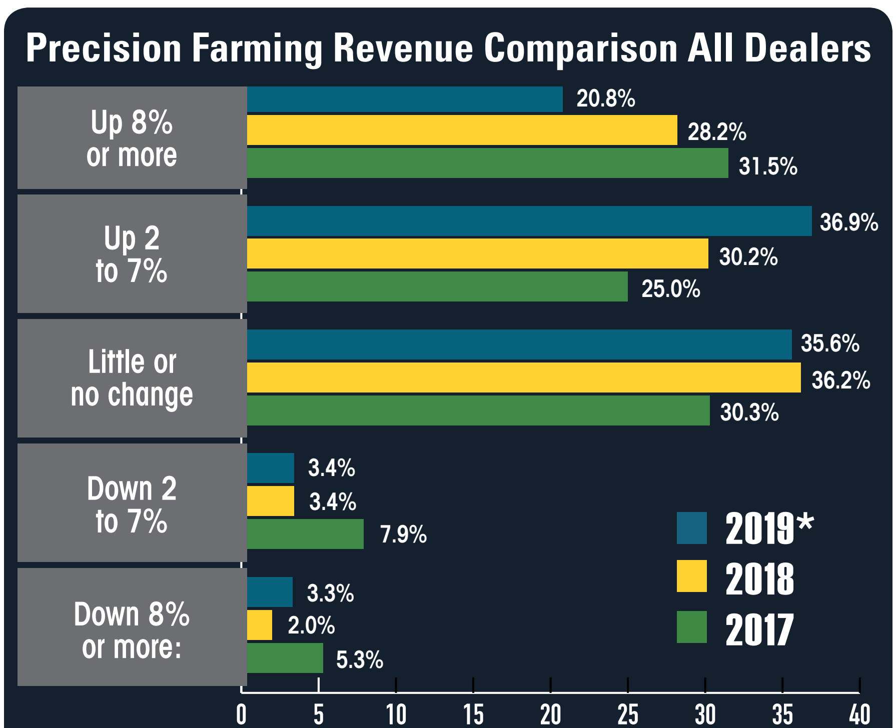
Despite market challenges, a majority of dealers report measurable precision revenue growth in 2018, including nearly one-third seeing an increase of at least 8%.

Despite the downturn in the ag economy, precision farming dealers have largely maintained an ambitious sales outlook, banking on their ability to increase billable service and capture ROI-based revenue from new products.

Talking with precision managers during the last year, many have evolved support plans or emphasized affordable, higher-margin aftermarket software and hardware to farm customers as incremental drivers of dealership revenue.

The results of this year's seventh annual *Precision Farming Dealer* benchmark study — with contributions from nearly 180 farm equipment dealers, input retailers and independent precision companies — reflect continued momentum for multi-layered products and agronomic services to bolster overall precision sales.

The 2019 data — collected during the first quarter and second quarter — maintains dealers' generally positive outlook, with the majority of respondents forecasting measurable growth for the third straight year.



*2019 percentages are based on 1st and 2nd quarter projections

A 3-year trend shows dealers being more cautious with high-end revenue growth projections and a higher percentage projecting growth in the 2-7% range.

Still, dealers acknowledge ongoing challenges including a dearth of internal talent, lack of a unified business growth plan and market saturation as potential obstacles to meeting revenue projections.

Says one dealer from Washington, "Most new OEM equipment comes with precision hardware already installed, so the aftermarket business is mature. I think replacing broken or non-repairable field computers with current models while still trying to provide added value when an unexpected expense occurs will be the hardest sell."

Exceeding Expectations

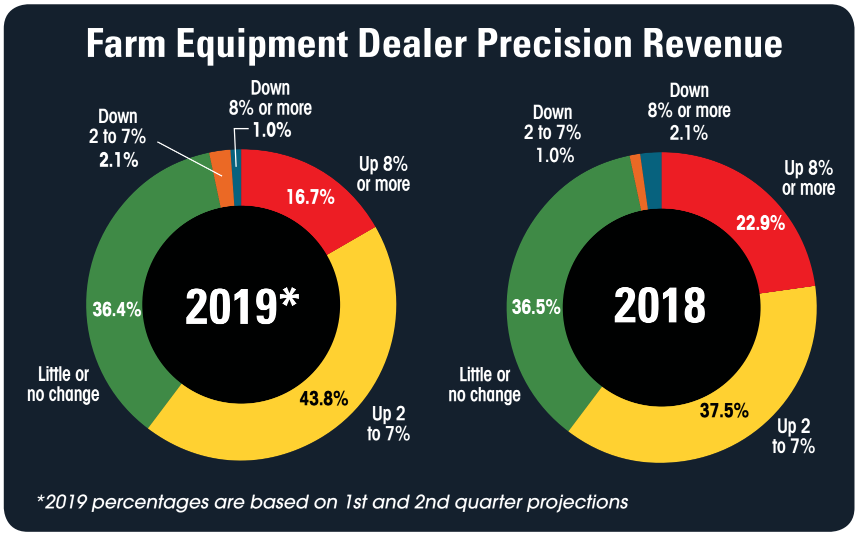
Comparing responses gathered from 31 different states, Canada and overseas, about 28% of dealers reported precision revenue growth of 8% or more in 2018, slightly ahead of the 26% forecasted in last year's report.

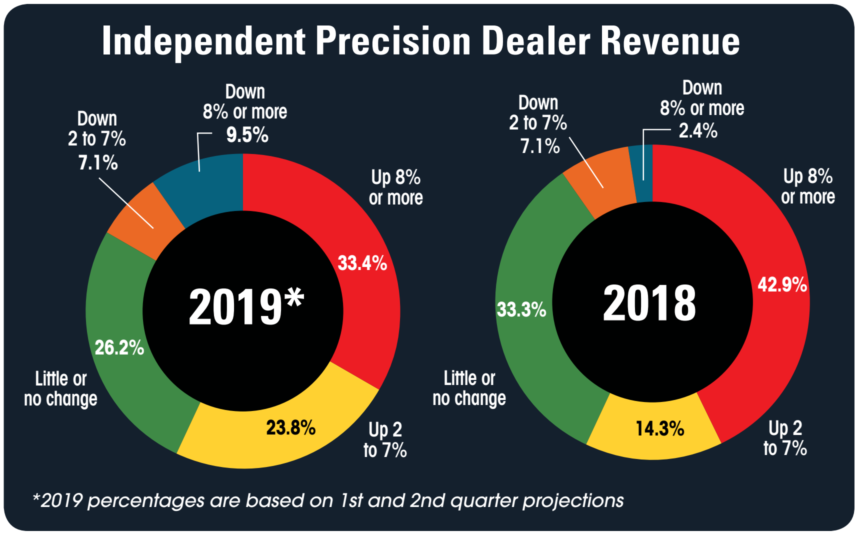
This marks the fourth consecutive year dealers exceeded their higher-end revenue expectations, although by the smallest year-over-year margin. In 2018, 31.5% of dealers reported precision revenue growth of 8% or more in 2017, more than double the forecast (15.4%). In 2017, 23% of dealers reported 2016 precision revenue growth of 8% or more, more than doubling that year's forecast (10%).

While higher end precision earnings continued to trend upward, 2018 revenue in the 2-7% range was about 10% off of initial projections (40.8%) with 30.2% of 2019 study participants reporting modest precision revenue growth last year. Dealers also fell short of more modest revenue projections in 2017. About 44% forecasted growth of 2-7%, but 2018 data showed that only about 25% achieved that goal.

Only 5.4% of respondents reported a decline in revenue of 2% or more in 2018, which exceeded the forecast (3.9%), but still represented an all-time low for the study. In 2017, about 13% reported precision revenue declines of at least 2%, and in 2016, about 23% reported a dip of at least 2%, including nearly 9% that saw a decline of 8% or more.

Further analysis of 2018 revenues shows that some 60% of farm equipment dealers — which accounted for about two-thirds of survey respondents — reported precision growth of at least 2% or more, including 22.9% who indicated growth of 8% or more.





Sizing Up Revenue Forecasts: Smaller Dealers Most Conservative with Outlook

Nearly half (48.6%) of respondents to the seventh annual Precision Farming Dealer Benchmark study are 1- or 2-store dealerships, a representation consistent with prior years. This group has historically had the most conservative revenue outlook — a trend which continued in 2019, albeit not as dramatic as in the past.

About 53% of 1- or 2-store dealers reported revenue growth of at least 2% in 2018, including about 27% with revenue of 8% or more, which exceeded last year's forecast by nearly 12%. This is on par with 2019 dealer projections, with about 54% forecasting at least 2% growth, and about 23% seeking growth of 8% or more.

Independent dealers are maintaining their positive outlook for 2019, with 54% projecting at least 2% growth, including about 23% forecasting growth of 8% or more. However, about 10% are projecting a precision revenue decline of at least 2%, which would top the reported 2018 total of about 8%.

A broader look reveals that about 57% of dealers with 10 or fewer stores forecast revenue growth of 2% or more in 2019, including about 36% who project growth of 2-7%.

As has been the case in past years, larger dealer groups have historically had the most optimism in terms of precision revenue. About 71% of dealers with 11 or more locations reported revenue growth of at least 2% in 2018, including more than 35% with revenue of more than 8%.

However, this group is slightly less optimistic in 2019, with about 61% forecasting at least 2% growth this year, and only about 21% projecting growth of more than 8%. Additionally, about 10% forecast at least a 2% decline in precision revenue, compared to only 3.5% reporting a measurable decline in 2018.

The high-end growth was nearly consistent with the 2018 projection of 23.2%, but growth in the 2-7% range was almost 9% off of last year's forecast for farm equipment dealers. Still, only 3.1% reported precision revenue declines of at least 2%, compared to the 2018 forecast of 3.6%.

Independent precision dealers accounted for 27.4% of respondents — up from 16.9% last year — and met, and in some respect exceeded, their 2018 revenue growth expectations. Some 57.2% reported precision revenue growth of 2% or more, including a record 42.9% that reported growth of 8% or more, well ahead of the 2018 projection of 35.7%.

It's also worth noting, that while 7.2% of independent dealers forecast a measurable decline in revenue in 2018, this year's study revealed that 9.5% reported a decline in precision revenue last year of at least 2%.

More Modest Growth

So what are dealers expecting this year? Overall, some 57% forecast revenue growth of at least 2% over 2019, with about 21% projecting growth of at least 8%. This is a more conservative forecast compared to a year ago, when about 67% of respondents forecast precision revenue growth of at least 2%, including about 26% that projected growth of at least 8%.

A 3-year trend shows dealers being more cautious with high-end revenue growth projections (see chart on p. 10), and a higher percentage projecting growth in the 2-7% range.

Some 6.7% of dealers forecast revenue declines of at least 2% this year, and 35.6% expect little or no change in 2019 precision revenue. These totals are also higher than a year ago, when 3.9% of respondents projected revenue declines of at least 2%, and some 29% expected precision revenues to remain flat in

2018, which was consistent with the 2017 forecast.

Overall optimism for 2019 is highest among farm equipment dealers, with about 60% projecting precision growth of at least 2%, but only about 17% forecasting growth of 8% or more. About 36% project little or no change to precision revenue this year, and only about 3% forecast a measurable decline in revenue.

Independent precision dealers are the most optimistic group for substantial revenue growth in 2019, with one-third forecasting an increase of 8% or more. Another 24% project precision revenue growth of 2-7% and about 26% are planning for little or no change. Interestingly, more than 16% of independent dealers forecast a decline in revenue of at least 2% in 2019.

Dealership consolidation and a more competitive precision landscape could be contributing factors, as one dealer in Quebec notes, "Competition is an increasing challenge for us and offering a complete solution for precision ag and data management. It is getting more and more complicated for a small player like us to continue in the precision ag business." PFD

PART 2

Mix & Match Approach with Precision Products, Services Sets Up Comprehensive Sales

Hardware sales rebounded, independent sales revenue dipped and fewer dealers have a separate department for precision farming.

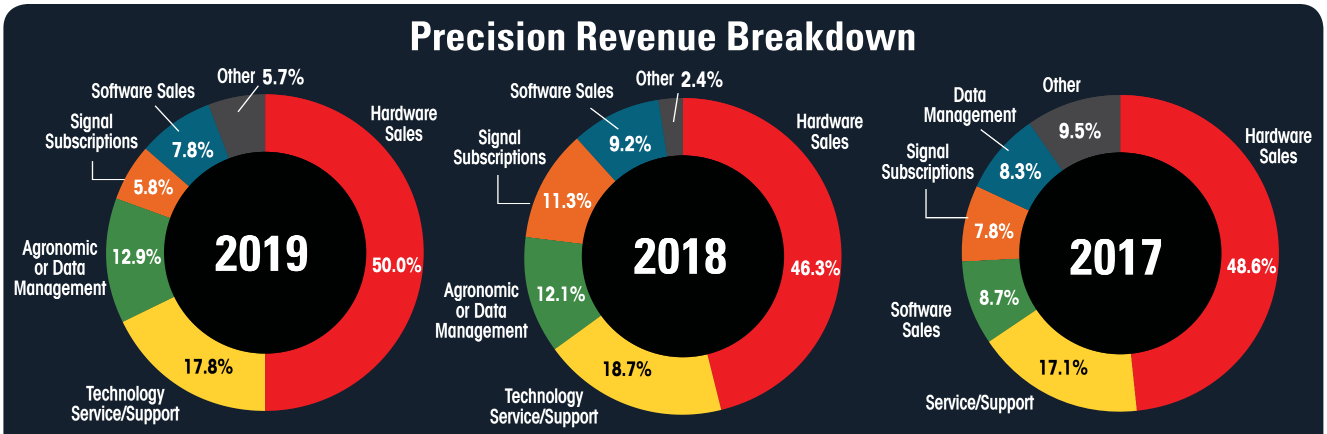
The more things change, the more they stay the same, at least in terms of how dealers are selling and servicing precision farming products.

While strides have been made establishing precision as a standalone business, dealerships continue to seek a better balance between revenue generated by hardware sales and service.

One precision farming manager from a Midwest equipment dealer notes that one of the challenges they face is the improved OEM product offerings that can erode precision-specific sales on a new piece of machinery. "The precision farming department doesn't get revenue from new tractor sales, so we will need to find new revenue streams to maintain profitability if hardware sales decline," he says.

This mindset is reflected in a continuing trend toward a more balanced breakdown of precision revenue sources in the seventh annual *Precision Farming Dealer* Benchmark study. However, there are few reversals in recent trends.

For the first time in 3 years, dealers reported that half of their precision revenue came from hardware



For the first time in 4 years, precision hardware as the primary driver of revenue hit 50%, while signal subscriptions showed the biggest year-over-year decline.

sales, curbing a downward trend that started in 2016. The most dramatic year-over-year drop was in signal subscriptions, from a high of 11.3% in 2018 to a low of 5.8% this year.

The percentage of revenue from software sales and technology service/support also both dipped, albeit slightly (see charts below), while agronomic or data management service ticked up by about 1% over 2018.

The way precision products are sold saw some subtle shifts in this year's study. Most notable was the continued 3-year downward trend of aftermarket sales of technology, to a low of about 41.6% in 2019.

Factory installed technology ticked up for the second straight year to 37.8%, while dealers selling used precision equipment dipped for the third straight year to a low of 5.2%.

Interestingly, 15.4% indicated they sell precision technology through other methods, which could include service-only sales or agronomic support.

Supplemental Sales

For the seventh consecutive year, the majority of respondents say their primary business objective with precision is to supplement wholegoods sales. After a 3-year decline, to a low of about 35% in 2018, the percentage rebounded to near 38% this year, though still well behind the nearly half of dealers who said precision sales were primarily to supplement wholegoods sales in 2016.

Independent service and support, to include software upgrades or installs, continued to increase for a fourth year, to a high of almost 22% in 2019. Though a slow climb, the momentum is encouraging as dealers continue to try and get a foothold with customers on establishing a "for fee" service model.

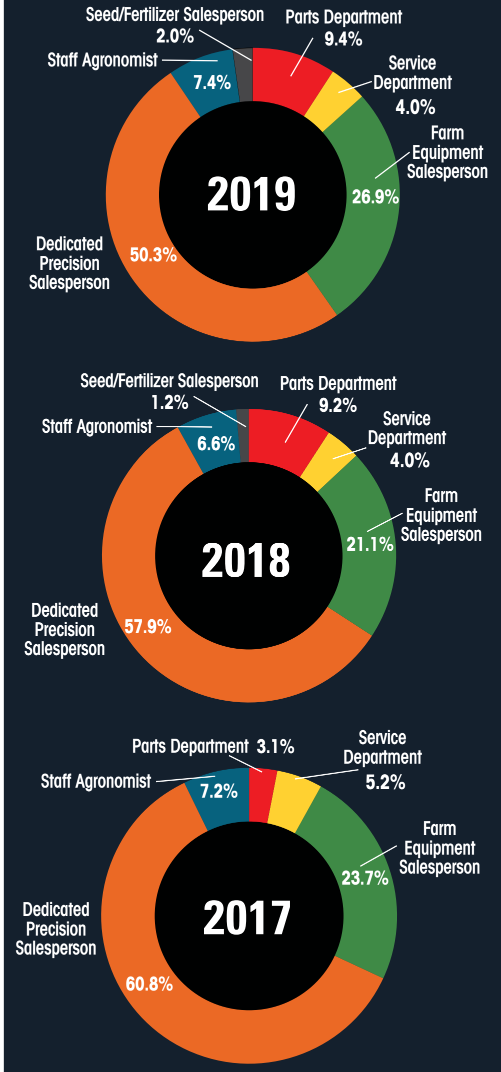
Platte Valley Equipment, a 4-store John Deere dealership in Nebraska, launched its E3 (Enable, Engage and Educate) service program in 2015, which is an upgrade from its basic AMS support program, priced at $2,900 per year and covering up to 3 systems to include basic technical support and software updates.

The more comprehensive E3 program, priced at $9,400 per year, includes planter and combine optimizations, RTK access, JDLink support, equipment inspections, free freight and discounts on parts from any of the dealership's 4 stores.

"We noticed that the customers were already paying for a lot of this stuff separately so we thought we could make it into a package deal and that way they're only paying one lump sum a year," says Cory Allely, AMS specialist. "It's worked out nicely because we can help them through every part of the growing season, equipment inspections, software updates and then getting into the agronomy side of it with some of our other programs."

After steady growth during the last 3 years, dealers making independent sales revenue a primary business objective took a step back in 2019, dipping to about 21%, after a high of almost 28% last year (see chart at right).

Who is Primarily Responsible for Precision Sales?



Half of respondents have a dedicated precision salesperson, down about 7 points from 2018. But this is still more than the combined percentage of the other categories.

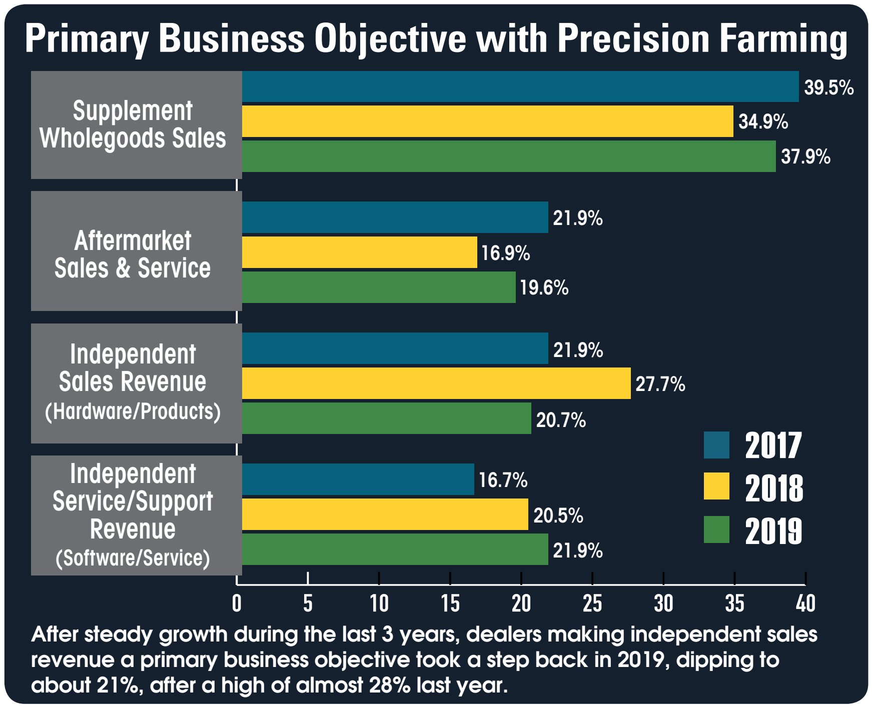
Collaborative Effort

Cross-training, specifically to troubleshoot low-level technology problems, has become an essential part of many dealerships' onboarding of new service or precision technicians.

With precision specialists stretched thin particularly in spring and fall, having another set of hands, eyes or ears to assist customers is changing how dealers delegate employees during busy seasons.

Dealerships that have a separate precision farming department dropped to a low of 44.6% in 2019, down 15% from last year. Looking at allocation of precision personnel, about 40% or respondents say their precision staff are part of the service department.

Another 30% are a within a separate or independent precision department and another 23% are part of the sales department. Only about 3% are allocated to the parts department



Looking more specifically at precision sales (see p. 14), about 50% of respondents have a dedicated precision salesperson, down about 7 points from 2018. But this is still more than the combined percentage of dealers who primarily sell precision through a farm equipment salesperson (26.9%), the parts department (9.4%), a staff agronomist (7.4%) and the service department (4%). PFD

PART 3

Putting Agronomic Emphasis on Service Revenue & Customer Retention

In-house agronomists and annual service contracts see jumps in 2019, while fewer rely on precision specialists for delivery of data management support.

Agronomic service is still a push-pull offering for dealers. Some have proactively embraced and invested in providing robust support options to customers that include soil sampling, data analysis and field prescriptions.

Others have opted to focus on their core revenue drivers, which may favor hardware and equipment-specific services. In either case, dealers acknowledge the intersection agronomy has with farm machinery, whether they are seeking to carve out a profitable niche in the market or not.

Overall, the seventh annual *Precision Farming Dealer* Benchmark study reflects continued momentum toward development and delivery of agronomic or data-driven services.

Agronomic Investment

Half of responding dealers say they offer data management service in conjunction with precision product sales. While the total is down from 2018 (57.3%) and 2017 (56.7%), it's ahead of 2016 (48.9%) and the fifth time in the 7-year history of the study at least half of responding dealers said they offer data management support.

After reaching a high of 48.6% last year, those dealers requiring agronomic training for precision specialists dipped to 39.7% in 2019. The total is ahead of 2017 (37.7%) and 2016 (22.8%) totals, but correlates with a continued decline in precision specialists being the primary provider of agronomic services for dealerships.

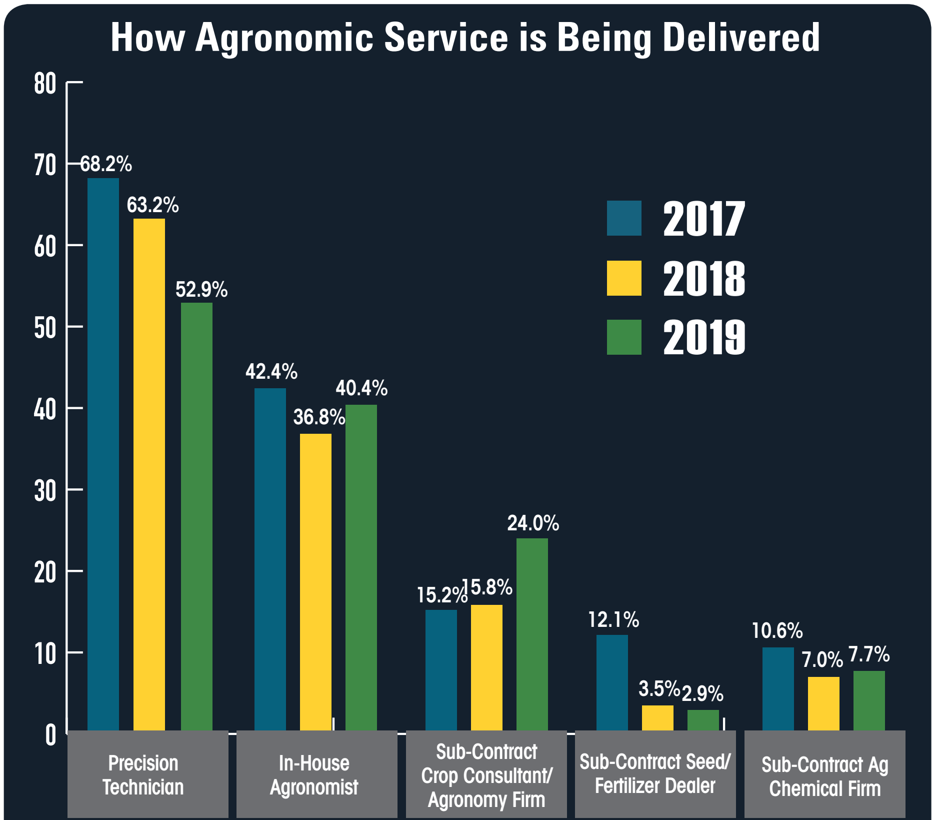
About 53% of respondents utilize precision specialists as their agronomic point person in 2019, down from about 63% last year and 68% in 2017. Though still the most popular option, other avenues for providing agronomic services gained in popularity (see chart at right).

Almost one-quarter of dealers sub-contract with a crop consultant or agronomy firm, representing nearly a 10-point increase over the 15% totals from the last 2 years.

Also up is the use of an in-house agronomist, with about 40% of dealers having at least one on staff, compared to just over 36% in 2018.

At this year's *Precision Farming Dealer* Summit in Indianapolis, Craig Benedict, ag technology manager for Reynolds Farm Equipment, spoke on the impact of making a commitment to selling and supporting agronomic offerings as a recurring source of revenue. (read more from Benedict on p. 39)

"Hiring a seasoned professional agronomist in 2012 was the best thing we ever did. We really started



Almost one-quarter of dealers sub-contract with a crop consultant or agronomy firm, representing nearly a 10-point increase over the 15% totals from the last 2 years.

Paying & Positioning Precision Talent for Growth

Employee compensation remains competitive, as dealers vie for talented technicians, managers and agronomists. Not only are dealers trying to protect talent from industry headhunters, they must also guard against burnout and specialists leaving the industry altogether.

Says one precision manager from a large equipment dealership in the Midwest, "A major challenge is managing the constant turnover and onboarding new employees who have to understand the new technology while working with customers who have technology that came out when they were in elementary school," he says. "But customers still expect us to support it all."

Looking at the breakdown of precision salaries for 2019, dealers stayed largely consistent with compensation for entry-level specialists while average salaries for in-house agronomists increased over 2018.

Some 41% of respondents pay at least $41,000 for new specialists, consistent with 2018, but nearly double the total from 2017 (22.5%). This coincides with a continued decline in dealerships paying $25,000-$40,000 for entry-level hires from 66.2% in 2017 to 52.5% in 2018 and a low of 41.2% in 2019.

Attracting talent with a solid wage is one thing; keeping quality staff is another. Some 61.2% of dealers pay at least $56,000 for experienced specialists, up from the 2018 total of 55% and more than 15 points ahead of 2017 (44.7%).

Staff agronomists continue to be the well-compensated, with 53.5% making at least $71,000, well ahead of the 2018 total (39.3%). Some 19.4% respondents reported paying staff agronomists more than $85,000 this year, comparable to 2017 data (21.6%), after no dealers reported paying staff agronomists in that salary range last year.

selling the service in 2013, but our agronomist didn't have a client list. It was done through his existing relationships and lots of cold calling. Gradually, he built up the practice," he says. "Our goal is to have about $250,000 in sales per agronomist. That's our number to know when we need to scale up to add another agronomist."

About 7% of dealers are subcontracting with a seed or fertilizer retailer for agronomic service, while about 3% are sub-contracting with a local ag chemical firm.

What Is Being Billed?

While 2019 data reflects a 4-year low of 42.6% for dealers offering precision service packages to farm customers, there was a shift on how dealers are billing out their support.

Charging by the hour remained the most popular method, but only half of respondents prefer this billing option in 2019, down more than 12 points from 2018 and more than 22 points from 2017.

On the rise was annual contracts as the primary method for billing precision services, from just under 13% in 2018 to more than 20% this year. Holding steady were dealers who charge a per-acre fee for services at about 14%, while the same percentage of dealers said they aren't billing for precision service — marking a 4-year high from just 3.7% in 2016.

Several dealers cited gaining traction with billable service as their primary challenge heading into the next year. "Our goal is billing for services we have given away for free in the past and developing new programs that offer new features customers are willing to pay for," says the precision ag manager of a Midwest co-op.

A revised question in this year's study asked dealers to identify services they are billing for, not just offering to farm customers. The majority of respondents cited 3 services they charge for — hardware installation (78.5%), in-season tech support (61.5%) and correction signal subscriptions (60.8%).

The second-tier of billable services included pre-season setup and training (47.7%), field data transfer and uploading (45.4%), yield monitor calibration (40.8%) and phone support (40%).

One of the key challenges in getting customers to initially invest in a support plan is showing them the value. One pathway for overcoming the obstacle is tracking the service hours that dealers spend with a customer enrolled in service plan, and then providing an annual report to the customer detailing how much labor was actually provided within that support plan throughout the year.

"There shouldn't be any surprises for the customer when you start dealing with service plans and support agreements," says Jon Eis, owner of Eis Implement in Two Rivers, Wis. "You really need to make sure you draw the line in the sand in terms of what diagnostics means. Is it 15 minutes of diagnostics that's provided or more? If it's 100 hours and your hourly labor rate is $105, show customers that value so that they start to realize the value of the service plan."

Rounding out the list of services dealers are billing to customers were remote service or telematics (33.1%), soil sampling and zone mapping (25.4%), aerial imagery and analysis (21.5%), seed or fertilizer recommendations (16.9%) and custom application (9.2%).

Getting customers initially enrolled in service plans can be easier than retaining them, as dealers have the option of rolling in the first-year cost with a new equipment purchase.

Almost half of dealers (48.6%) have at least a 51% success rate on year-to-year customer renewals of precision service packages, including about 35% who convert at least 76% of customer renewals. About another one-third said they only have a 25% or lower success rate on renewing precision service packages. PFD

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