EDA Announces New Foundation Board Members

ST. LOUIS, MO – The Equipment Dealers Association (EDA) announces the appointment of the 2016/17 Equipment Dealers Foundation (EDF) officers and board members. Each individual previously served as national chair of the EDA (formerly NAEDA) board of directors and currently own and operate equipment dealerships throughout North America. Two of the eight board members are from NEDA. Northeast Equipment Dealer members on the board are:

**BRIAN CARPENTER** is the president and general manager of Champlain Valley Equipment, a New Holland, Case IH and Kubota dealership in Vermont. Champlain Valley Equipment was founded in 1970 by Russell Carpenter and Brian took over in 2001, growing the business to 5 locations. Brian is a veteran and served in the army as well as in the Vermont National Guard, eventually earning the title Assistant Adjutant General for Vermont. Since his retirement from service in 2014, Brian has been elected to his town’s select board and has had more time to spend with his family and focus on his business. Brian is EDA’s current national chair.

**BOB FRAZEE** has been a partner in Cazenovia Equipment Company since 1975 when he joined his father-in-law, Larry Love, who founded the company in 1961. Two of Bob’s sons joined the company in 2003, carrying on a 50+ year family tradition. CEC is a John Deere dealer with 9 stores in central and northern New York. Bob also runs CEC Energy (formerly CEC Wind Power), founded in 2010 to install wind turbines across New York. The company was created after a tornado ripped through Greensburg, Kansas, and the town decided to rebuild with LEED-certified buildings and other green initiatives. Bob was national chair for EDA in 2006.

“I am extremely pleased and honored to welcome these eight individuals to the foundation board,” said Rick Lawhun, EDA president & CEO. “With their wealth of experience and knowledge, they will be true assets to the foundation and EDA. I appreciate their continued commitment to the industry and look forward to working with them. It’s going to be a wonderful experience!”

The Equipment Dealers Foundation was established in 1988 and provides funding for scholarships to meet our industry’s need for training resources and temporary assistance for dealership and their employees who have been affected by natural disasters.
NEDA Workers’ Compensation Safety Group

Over 23.25% Average Dividend For The Last 10 Years!

Exclusively for New York Members of the Northeast Equipment Dealers Association

DIVIDEND HISTORY

<table>
<thead>
<tr>
<th>Policy Year</th>
<th>Dividend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2013</td>
<td>15%</td>
</tr>
<tr>
<td>2011-2012</td>
<td>5.0%</td>
</tr>
<tr>
<td>2010-2011</td>
<td>20.0%</td>
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<tr>
<td>2009-2010</td>
<td>25.0%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>37.5%</td>
</tr>
<tr>
<td>2007-2008</td>
<td>20.0%</td>
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<tr>
<td>2006-2007</td>
<td>35.0%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>37.5%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>25.0%</td>
</tr>
<tr>
<td>2003-2004</td>
<td>32.5%</td>
</tr>
</tbody>
</table>

Committed to Building The Best Business Environment for Northeast Equipment Dealers

ELIGIBILITY
- Members of NEDA Inc.
- Construction/Industrial Equipment Dealers
- Material Handling & Lift Truck Dealers
- Farm Equipment Dealers
- Outdoor Power Equipment Dealers
- Rental Equipment Dealers with Repair Facilities

ADVANTAGES
- Aggressive Advance Discount (up to 20%)
- Additional Discounts Available for Qualifying Dealers
- Excellent Dividend Potential
- Claims Management & Loss Control Services
- Monthly Installments for Qualifying Dealers

To see if you qualify, call Patrick Burns at Haylor, Freyer & Coon 800-289-1501, Ext. 2148 or fax a current declaration page to 315-684-9801 or call Ralph Gaiss (Executive Director of NEDA) at 800-932-0607 for more information. You may also visit us at www.haylor.com
I looked back to see what I’d written about in last year’s article and was pleasantly surprised to see that I’d written about a parts purchase, CRM, and how the two supported dealership profitability. Knowing manufacturers will continue their unrelenting focus on market share performance and that in turn means the “stupid” deals will continue; it has become clear to me that those dealerships who’ve mastered Parts, Service and CRM will be the winners (survivors).

Over the years, I’ve heard many a dealer tell me “my customers don’t want to answer 50 questions; they want to get in get out and be on their way.” Contrast that with the mantra of virtually every industry expert/consultant/educator and one could get confused quickly!

The truth is that the “experts” are, and have always been, right!

Thinking back to the purchase I referenced earlier, it became quite clear that the dealer that I interacted with had listened to these experts. He/they’d successfully implemented a well thought out sales process, had hired quality personnel, and had invested significant time training them! As a result, he’d made the most of every transaction. My Parts person (salesperson) listened to my needs, suggested multiple solutions and additional purchases, collected my data and completed the transaction all while making me feel I was a valued customer. What more could a dealer ask of their staff?

You might ask why the focus on customer “data”? What role does it play in my customer/dealer or dealer/manufacturer “relationships”?

Let’s look at the customer/dealer relationship first? In today’s market place, quality data (understanding your customer) is the key driver to a successful (profitable) sales process. The more your dealership knows about your customers, the better able it is to plan, anticipate trends, purchase inventory, hire staff, build facilities, but most importantly quality customer data enables your dealership to effectively communicate with customers.

Although some might not agree, in my opinion Google’s success is due primarily to their ability to collect and maintain quality customer data. That “knowledge” enables Google to deliver relevant communications (advertising), while at the same time providing added services to their customers (advertisers)! While your dealership may never equal Google’s footprint, it can follow Google’s example provided the proper investments are made to ensure both that you’ve built the knowledge base and leveraged that knowledge to ensure your “communications” are customer centric (relevant).

I can’t think of a quicker way for your “communications” to find their continued on page 4
way to the delete folder/file 13 than promoting a combine head to a zero-turn customer!

Regarding the manufacturer/dealer relationship, other than warranty reimbursement, the complaint I hear most from dealers is the manufacturer's relentless pursuit of Market Share/Sales Performance. Although each manufacturer uses unique terminology, the basic gist goes something like, “10 “______” were sold in your AOR you sold “____”! This year you need to sell/order “____”!

Those dealers who have made the investment know and can definitively argue whether or not 10 were “truly” sold and to whom; if they got the deal or if they didn't why not! More importantly they know whom this year’s customers might be, what help they might need and begin the process/discussion with their manufacturers (partners) beforehand knowing they’ve all the tools necessary to close “the deals” benefitting all concerned.

Successful dealers have learned to pay attention to the details. They use every opportunity to gather quality information and exploit that KNOWLEDGE to their advantage!

**REAP the benefits of membership, your PROFITS will follow!**

**PA Farmers Can Still Receive Sales Tax Exemptions**

PA Farm Bureau recently received clarification from Pa. Dept. of Revenue on whether a farmer must obtain and use a Federal Employer Identification Number (EIN) to be exempt from state sales tax on purchases of farm supplies and equipment.

Farmers must present a completed Pa. Exemption Certificate (REV-1220) or have one on file with the seller in order to be exempt from sales tax on farm purchases.

However, recent versions of the form ask for an EIN, leading some sellers to believe the farmer must provide a taxpayer number, like an EIN or Social Security number in order for the farmer's purchase to be exempt from sales tax.

According to Dept. of Revenue officials, the farmer is NOT required to have an EIN to qualify for the farming exemption. And the farmer without an EIN is not required to provide a Social Security number in place of the EIN on the form. Farmers without EIN's need only check Box Number 1 of the form, write “Farming” in the blank space on that line on the form and write “N/A” in the space where the EIN would be indicated. If a farm has an EIN, farm owners or employees must provide that number on the form.

A version of the REV-1220 form that allows you to complete the form with your computer can be found at the Dept.'s website, www.revenue.pa.gov. Click on FORMS AND PUBLICATIONS, then Sales, Use and Occupancy Tax to get to the web page where the link to the REV-1220 form appears.

Committed to Building the Best Business Environment for Northeast Equipment Dealers
New Hampshire’s equipment dealers, led by the Northeast Equipment Dealers Association (NEDA), have spent over four years fighting for a fair and equitable dealer protection law. The dealers have prevailed through every available state legal appeal by the manufacturers and the law is now fully in effect.

Unfortunately, in a last ditch effort to eliminate the protections afforded to equipment dealers under the New Hampshire Dealer Bill of Rights SB126 amended as RSA Chapter 357-C in 2013 law, several manufacturers have asked the United States Supreme Court to review the case for the second time. The manufacturers appealing to the Supreme Court are supported by many other manufacturers as well as various manufacturer associations. The manufacturer associations plan to file an amicus brief invalidating the retroactivity of existing dealer laws.

In order to balance the scales, dealers and dealer associations across North America must unite and provide both moral and financial support to NEDA as it takes necessary steps to preserve the New Hampshire law. At EDA and NEDA, they are encouraging dealer members all across North America to support NEDA and its fight for fair and equitable dealer protection laws.

We ask our member dealers to please contribute directly to the cause by clicking on the link below.

**WE NEED YOUR HELP NOW, TO HELP ALL DEALERS!**

For more information, contact
Ralph Gaiss, Tim Wentz or
Dave Close at 1-800-932-0607.

CLICK HERE TO DONATE.

EQUIPMENT INDUSTRY News

First of its kind API joins dealer management software with third party suppliers

CHARTER SOFTWARE INC. RELEASES ASPEN INTEGRATOR

Charter Software Inc.’s July 2016 release includes the launch of ASPEN Integrator, a new module that integrates ASPEN, their flagship business management software, with third party suppliers that dealers use to run their business efficiently.

With ASPEN Integrator dealers can now:
• Connect to multiple data sources including CRM, packages, shopping carts, auction & equipment sites, manufacturers, and email and phone systems in real time.
• Keep multiple data sources current, reducing duplicate data issues caused by current software integrations.
• Run secure live queries and more quickly respond to customer inquiries.

“At Charter Software, we understand that in order to flourish, dealers need to be able build a bridge between all of their technology systems. Most business system vendors in our industry do not have any means to connect, and the ones that do require third party certification,” said Anne Salemo, President/CEO of Charter Software. “Dealerships own their data and should be able to extend it as necessary to maintain competitive edge. If you have a software or online tool that needs access to your customer, inventory or other relevant business information, ASPEN Integrator is for you.”

About ASPEN: ASPEN was developed using Microsoft .NET and SQL Server to offer dealers strong security, a reliable, manageable IT infrastructure, and easy integration with Microsoft applications.

About Charter Software Inc.: Charter Software, Inc. is headquartered in Littleton, Colorado and was founded in 1978. Charter Software provides affordable, Windows-based business management software designed to improve efficiency and increase the profitability of equipment dealerships. Charter Software works closely with the equipment industry’s leading suppliers to create streamlined EPC/e-commerce integration with their software.

For more information on Charter Software, please visit http://chartersoftware.com/ or e-mail at: solutions=chartersoftware.com@mail217.suw16.rsgsv.net

Please call Mark Eckles @ 402-651-5913 or Stacey Simmer @ 866-424-3150 for your next Customer Financing or Leasing Sale.
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SUBSCRIBER
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ROTATING
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For an in-depth look at Fastline’s catalog distribution list visit Fastline.com/Distribution

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New Rule Requires Passengers in Large Commercial Trucks to Wear Seatbelts

The Federal Motor Carrier Safety Administration (FMCSA) announced that passengers riding in large commercial trucks will be required to use seat belts whenever the vehicles are operated on public roads in interstate commerce.

Effective August 8, 2016, the final rule revises Federal Motor Carrier Safety Regulations and holds motor carriers and drivers responsible for ensuring that passengers riding in large commercial trucks are using seat belts.

In 2014, 37 passengers traveling unrestrained in the cab of a large truck were killed in roadway crashes, according to the most recent data from the National Highway Traffic Safety Administration (NHTSA). Of this number, approximately one-third were ejected from the truck cab.

FMCSA’s most recent Seat Belt Usage by Commercial Motor Vehicle (CMV) Drivers Survey, published in March 2014, found that commercial motor vehicle passengers use seat belts at a lower rate (73 percent) than CMV drivers (84 percent). Federal rules have long required all commercial drivers to use seat belts.

FMCSA’s New Regulations on Electronic Logging Devices for Trucks

Update on Electronic Logging Device (ELD) Rule & FMCSA’s plan for its phased implementation information can be found at: https://connectdot.connectsolutions.com/p4ph66dcnxh

Phase 1 “Awareness and Transition” of Electronic Logging ends December 18, 2017

System providers can register and certify their Electronic Logging Devices (ELDs) – a Compliance Test Procedure is on FMCSA’s website at https://www.fmcsa.dot.gov/hours-service/elds/equipment-registration

Acceptable tools Motor Carriers can use include:
1) ELDs
2) Automatic On-board Recording Device (AOBRD)
3) Devices with Logging Software Programs
4) Paper logs for records of duty status

Going forward, the following items in bold and underlined must be on the ELD Daily Header in addition to the currently required information (as listed below):
- 24-Hour Period Starting Time
- Carrier Name/USDOT #
- Driver Name and ID
- Driver’s License #
- Driver’s License State
- Co-Driver Name and ID
- Current Location
- Data Diagnostic Indicators
- ELD Malfunction Indicators
- ELD Manufacturer Name
- ELD Registration ID
- Unidentified Driver Records
- Exempt Driver Status
- Miles Today
- Print/Display Date
- Record Date
- Shipping ID
- Current Engine Hours
- Current Odometer
- Time Zone
- Truck Tractor ID and VIN
- Trailer ID

What exemptions apply and to whom:
- Short-haul operations as defined in 395.1(e)(1) and 395.1(e)(2)—(395-8 & 395-15)
- Drivers who keep RODS for no more than 8 days during any 30-day period
- Driveaway-towaway drivers (vehicle is part of shipment)
- Drivers of vehicles manufactured before model year 2000

NEW Program Announced for Trucking Permits

NEDA and JJ Keller has teamed up and put together a fast and easy way to get all your trucking permits:
- On Line
- Worry Free Compliance
- Great Service 24/7
- NEDA Special Membership Pricing

Safety Regulation books are available for $4.00 each. Call the Association at 800-932-0607 to order yours today!!

Annual Brake Inspection Blitz Set For September

Inspectors will be keying in on brake safety again this September when the Commercial Vehicle Safety Alliance’s Brake Safety Week takes place Sept. 11-17. Across North America, law enforcement agencies will conduct inspections on commercial vehicles to look for out-of-adjustment brakes, and brake system and anti-lock braking system violations during the week. Specifically, CVSA says inspectors will be looking for “loose or missing parts, air or hydraulic fluid leaks, worn linings, pads, drums or rotors, and other faulty brake system components.” Inspectors will also be checking ABS malfunction indicator lights to make sure they’re in working order, CVSA says.

Defective or out-of-adjustment brakes will result in the vehicle being placed out-of-service. In 2015, 12.3% of trucks inspected placed out-of-service during Brake Safety Week.

~ Reprinted from Commercial Carrier Journal
Go Ahead, Just Do It

It’s been on your mind, now is the time to act. Why not do a little spring cleaning around your business and get rid of high rates and unnecessary fees? Electronic Merchant Systems has partnered with the Northeast Equipment Dealers Association to do one thing and one thing only - save your business money. Give us a call today to immediately lower you monthly fees and slash your rates! As a member of the NEDA you gain access to special rates and discounts.

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Wireless Processing  |  Petro Program (Fleet)  |  Merchant Funding  |  Payroll

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YOUR SERVICE DEPARTMENT: IS IT PROFITABLE?

Do the math. Does your service department cost you more to operate than it bills? A key to dealership profitability is a service department where sales revenue outweighs expenses. And the keys to such performance are found in your labor rate and department efficiency.

How did you come to your current service labor rate? Most service managers tell me they started with an existing rate which they have increased gradually over the years, typically adding three percentage points and rounding up about every year or so (although a year or so often becomes two years or longer). An alternate approach involves raising labor rates in conjunction with raises for technicians, but technician wages are not the only departmental expense and such an approach can create big problems for the dealership over time.

The first problem with increasing labor rates periodically by some flat percentage is that service department expenses grow at different, higher rates. Your DMS system, health insurance, manufacturer training – such expenses need to be considered as you determine a labor rate. Most dealers expect a 70 percent gross profit margin; but, maybe your service department expenses are such that you need a higher gross margin to be profitable.

So how do you go about setting your labor rate to both stay competitive and increase profits? Consider the following:

- First, review your financial reports to see the impact of expenses on your department’s bottom line – that is, do the math.
- Second, determine what labor rate the market will bear. Many dealers call around to find out both the effective and posted labor rates of other local dealers and independent shops, especially those with whom you compete for service business and those with a similar service offering. (Caution: don’t fall into the trap of just setting your rate based on some rate in the middle of your competitors. Do you know their expense structure? Do you know if they are even profitable?)
- Third, set a reasonable rate that leaves enough margin for the department to be profitable.

BUT DON’T STOP THERE
What if the rate that you need to be profitable exceeds that which the market will bear?

Use efficiencies and technician incentives to bridge the gaps.

For example: A technician earning $12 per clock hour with 50% of the technician’s time charged on work orders is really costing the shop $24 per charged hour, so to maintain a 70% gross margin, you find you need an $80 per hour posted rate. But what if the market will bear only $70?

First, look at your parts department. Increasing efficiency by having a ready inventory of parts to reduce technicians downtime is good for profitability and also good for customer satisfaction.

Second, look at your technician pay plan. Providing productivity incentives, such as a bonus based on the technician increasing the percentage of chargeable hours will likely increase the technician’s pay while increasing the profitability of your service department. Using the example above, if we can raise the productivity of the $12 per hour technician from 50% to 60% the effective cost of labor drops from $24 to $20 per hour and the $70 posted labor rate yields an acceptable gross profit margin slight above 71%.

So do the math. Find areas and ways to improve productivity. Then set your labor rates accordingly. The process will allow you to achieve your desired gross margin while staying competitive in your marketplace.

REX COLLINS
Rex Collins, CPA, CVA, heads up HBK CPAs Dealership Team. His specialties include dealership evaluations, merger and acquisition, litigation, support services for dealers, forensic accounting, dealer estate taxation and planning, and operations management.
### The Affordable Care Act

The Affordable Care Act includes the individual shared responsibility provision and the premium tax credit. This chart explains how the health care law may affect you and your tax return.

<table>
<thead>
<tr>
<th>IF YOU...</th>
<th>THEN YOU...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are a U.S. citizen or a non-U.S. citizen living in the United States.</td>
<td>Must have qualifying health care coverage, qualify for a health care coverage exemption, or make a payment when you file your income tax return</td>
</tr>
<tr>
<td>Had coverage or an employer offered coverage to you in the previous year.</td>
<td>Will receive one or more of the following forms;</td>
</tr>
<tr>
<td></td>
<td>- Form 1095-A, Health Insurance Marketplace Statement</td>
</tr>
<tr>
<td></td>
<td>- Form 1095-B, Health Coverage</td>
</tr>
<tr>
<td></td>
<td>- Form 1095-C, Employer-Provided Health Insurance Offer and Coverage</td>
</tr>
<tr>
<td>Had health coverage through an employer or under a government program (such as Medicare, Medicaid and coverage for veterans) for the entire year</td>
<td>Just have to check the full-year coverage box on your Form1040 series return and do not have to read any further</td>
</tr>
<tr>
<td>Were eligible for an exemption from coverage for a month</td>
<td>Must have qualifying health care coverage, qualify for a health care coverage exemption, or make a payment when you file your income tax return</td>
</tr>
<tr>
<td>Did not have coverage and were not eligible for an exemption from coverage for any month of the year</td>
<td>Are responsible for making an individual shared responsibility payment when you file your return</td>
</tr>
<tr>
<td>Are responsible for making an individual shared responsibility payment</td>
<td>Will report it on your tax return and make the payment with your income taxes</td>
</tr>
<tr>
<td>Need qualifying health care coverage for the current year</td>
<td>Visit HealthCare.gov to find out about the dates of open and special enrollment periods for purchasing qualified health coverage</td>
</tr>
<tr>
<td>Enroll in health insurance through the Marketplace for yourself or someone else on your tax return</td>
<td>Might be eligible for the premium tax credit</td>
</tr>
<tr>
<td>Received the benefit of more advance payments of the premium tax credit than the amount of credit for which you qualify.</td>
<td>Will repay the amount in excess of the credit you are allowed subject to a repayment cap</td>
</tr>
<tr>
<td>Did not enroll in health insurance from the Marketplace for yourself or anyone else on your tax return</td>
<td>Cannot claim the premium tax credit</td>
</tr>
<tr>
<td>Are eligible for the premium tax credit</td>
<td>Will have payments send on your behalf to your insurance provider. These payments are called advance payments of the premium tax credit</td>
</tr>
<tr>
<td>Get the benefit of advance payments of the premium tax credit and experience a significant life change, such as a change in income or marital status</td>
<td>Report these changes in circumstances to the Marketplace when they happen</td>
</tr>
<tr>
<td>Get the benefit of advance payments of the premium tax credit</td>
<td>Will report the payments on your tax return and reconcile the amount of the payments with the amount of credit for which you are eligible</td>
</tr>
</tbody>
</table>

*Northeast Dealer | AUGUST 2016 ... 11*
This last article is to announce that after many years I have decided to “take down my shingle”. . . but before I do that, I hope that this article will be a thank-you to all of you who have made the past 38 years such an enjoyable and successful experience. I name a few names and thank a few people, but explain up front, time and space does not allow me the luxury of expressing my thanks to everyone for making my career choice successful, but most of all enjoyable.

It has been a great experience for almost four decades. It was 18 days before Christmas when I received that “pink-slip” from my very last employer. I gave the situation some thought and three days later in a fine restaurant, a martini in hand, I presented an “idea” to my bride. Five minutes later she raised her glass and said: “You’ve always wanted to work for yourself and if we don’t do it now we may never do it!” I never looked back and was never sorry for the decision I made and I recognize that there were many people who both assisted and contributed to my success.

I decided rather quickly, following my firing just what I wanted to do and who I wanted to do it for. My early career was spent working with dealers in the farm, construction, industrial golf and turf industries, as well as the lift truck industry. I worked in these industries after my tour for Uncle Sam was ended. I was aware and understood as to what the dealer’s opportunity was within the area of what was referred to as product support and/or aftermarket. I researched the area as best I could and found the competition not truly focusing on just the aftermarket; nor were the major suppliers (most) focused upon their dealers’ opportunity for the market. The typical, farm equipment, lift truck, construction, golf and turf, or industrial dealer could not believe what he was hearing, nor did he have the time to work on someone’s pipe dream. Mike Nicholes came alive and were truly in awe of what Mike had to say, while at the same time being able to see for themselves what a 100% AR meant to their dealership’s “bottom-line”.

Simply stated, establishing 100% Absorption Rate calls for the dealer to establish all of his departments into individual Profit Centers. It is a call for specific measurement easily identified as: 1) Sales Transactions, 2) Cost of Sales Transactions, and 3) Expense Transaction. Therefore a Profit Center is a department(s) within a dealership that pays all of the expenses of this particular life and has a “bit” left over for the dealership. If the dealership’s Parts Manager, Service Manager and Rental Manager work together to achieve 100% AR and the “left over bit” of profit, pays the dealership’s Fixed Overhead and Variable Selling Expense, then the dealer will experience a highly profitable dealership.

When our company came into existence, the car dealer lived by Absorption Rate and there was no question that the minimum goal would be higher than 100%. The typical, farm equipment, lift truck, construction, golf and turf, or industrial dealer could not believe what he was hearing, nor did he have the time to work at someone’s pipe dream. If a dealer checked out his own dealership and his actual AR Rate came out as 58% or 78% (a position dealers had themselves in at that time), he immediately became a “Doubting Thomas”, they were too much of “Doubting Thomas” to push to achieve ultimate success.

continued on page 17

12 “Committed to Building the Best Business Environment for the Northeast Equipment Dealer”
NAEDA is pleased to offer the FREE NAEDA Shipping Program, managed by PartnerShip®. This free member benefit provides significant savings on every truckload shipment with our large pool of reputable national, regional, and specialized freight carriers.

- Fast, free rate quotes
- Safe, reliable carriers
- Dry van, flatbed, refrigerated
- Friendly, dedicated support
- Maximum cargo liability coverage

Get a FREE QUOTE today at

PartnerShip.com/TLQuote
We are all familiar with the 20+ year consolidation trend among equipment dealers. This trend has provided an effective exit strategy for many dealers. But what about the dealers that remain?

Many dealers operating today have experienced rapid growth in the last decade. Much of this growth has been fueled by mergers. Mergers facilitate the creation of large dealer organizations because they generally require no additional equity and can be completed on a tax-free basis. Although the purpose of these mergers is to help the merged dealers become more profitable and efficient, these larger dealer organizations also frequently create succession planning challenges due to (a) large ownership groups that make managing the exits of individual families over time difficult and (b) a shrinking pool of potential buyers that can purchase the business.

Succession planning involves two key elements: management succession planning and ownership succession planning. The good news for larger dealer organizations is that the size of these organizations has led to a trend toward developing and hiring management teams that are not members of the core ownership groups. This can make management succession planning easier to accomplish in the future, especially since it is not tied to ownership succession planning.

Ownership succession planning is another story. As your dealership gets bigger, the options for transitioning the business become smaller and harder to accomplish. Let's take a quick look at your basic options:

**Sale to Another Dealer**

This is the most logical option for most dealers. However, a sale to another dealer becomes very difficult for large dealers because of the way that manufacturers calculate tangible net equity percentages or ratios that are usually mandated as part of the approval process. The tangible net equity requirements, when combined with growing inventories that are often fully financed (and therefore reduce tangible net equity percentages), significantly limit the ability of many buyers to pay blue sky for a dealership. What this means is that the bigger your dealership gets, the harder it can become to extract the true value of the business from a buyer.

**Sale to Private Equity/Outside Investor**

Outside investors with capital are another option because these groups have the financial resources to meet the tangible net equity requirements of manufacturers. Unfortunately, outside investors are often hesitant to accept the manufacturer limitations on transfer without approval and usually will not accept requirements to give manufacturers personal guarantees. These issues can create uncertainty as to whether an outside investor will be approved and limit the pool of available outside investors.

**Partial Ownership Purchases**

Ownership succession planning can be accomplished by having the dealership or other owners purchase the stock of a retiring/selling owner. This can be an effective strategy when the owners have exit strategy timing spaced out over several years or even generations, but it needs to be managed carefully to avoid creating too much of a financial burden on the dealership. In addition, funding purchases of even minority owners of today's large dealerships can be too large for dealerships to pull off without seeking additional investors.

**What about ESOPs?**

One option for today's large dealer is an Employee Stock Ownership Plan (ESOP). An ESOP is a form of retirement plan recognized by the IRS that can also serve as a powerful succession planning tool for dealers. An ESOP works as a succession planning tool for an owner by buying the owner's stock in the dealership with proceeds from a bank loan, owner-financing or a combination of both. The ESOP can acquire all of the dealership's stock, purchase the stock of only certain owners or buy stock over time. This can provide a lot of flexibility depending on your needs.

**ESOP Tax Advantages**

The sale of your dealership to an ESOP can create tremendous tax advantages. When you sell to an ESOP, you are selling your stock. A stock sale will be subject to capital gains tax, the lowest income tax rate under our tax system. When dealerships are sold to other dealers or outside investors, they are normally structured as asset sales. Asset sales generally result in higher taxes on the seller and these taxes can be significantly higher if your dealership is a “C” corporation because a sale results in two levels of tax – a corporate income tax on the sale continued on page 18
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WHY YOU SHOULD CONSIDER LAYING OFF 20% OF YOUR SALESPERSONS EVERY YEAR

Before you bite my finger off based upon the title, just look to where it’s pointing. The biggest issue I see in the workplace by far is a lack of accountability. Similarly, the biggest issue I see in sales forces is letting salespeople stay on the payroll while doing close to zero, or in some cases, while even losing the company business. I’m not talking about non-production over a period of days, weeks, or even months, I’m talking years in many cases. This absolutely needs to be addressed if you are going to be a highly successful sales organization. In one case an insurance agent was on the payroll for seven years with almost no production the entire time because he was a friend of the agency owner. In another case I saw a salesperson do virtually no business for over three years yet stay employed because the owner needed to “save this person and his family.” Non-productive salespeople are killing your business, not only in salaries and related items, but also by dragging down everyone around them. You are also hurting, not helping them, by keeping them around. So if you are one of those who keeps people around much longer than you should, or you’re wondering why motivation and morale are lacking in your office, read on.

1) The bottom 20% are causing 80% of your headaches and problems.

They are also the biggest drain on your time, money, and resources while bringing in only about 2% of your business. In insurance agencies I see the bottom 20% continually go back and argue and fight with office staff over taking a second look at less-than-desirable business and bad risks because they have no other business prospects. I see this same 20% call underwriters at insurance companies and waste hours of their time trying to push through miniscule, risky business opportunities, so they can get a measly little sale. These people sap energy, dampen enthusiasm, and kill morale within the office, not to mention your bottom line. These people are your business dragnet and they are hurting all involved including customers, prospects, other employees, vendors, you, and even themselves and their families.

2) By keeping the 20% you are actually hurting, not helping them.

It baffles me when someone keeps a person in a job that they obviously are not cut out for, that they perform horribly at, and one in which they do not like, but I see it all the time for a myriad of reasons. I once had a business owner tell me, “I can’t get rid of this person, he is married and has three kids.” The employee he was referring to had recently missed two mandatory sales meetings because he was traveling with his family two States away to check out, and subsequently purchase, a $600 puppy.

While the owner is under the delusion that he is somehow “saving” this person, in reality he is squashing his future possibilities for success along with his confidence and self-esteem. It’s impossible to be in a job that you don’t do well, and that you aren’t cut out for, and feel good about yourself.

Let’s go back to the example in which a company kept an underperformer around for seven years. This man, who came in confident and assured, was a shell of a man after seven years. He had no self-esteem, no self-worth, and was also experiencing significant marital and other family issues.

When you keep people around that you shouldn’t, you do everyone a disservice. You hurt the employee by not allowing them to see and deal with reality, you kill morale and attitude within the organization, and you set a bad example.

3) Getting rid of 20% of your salespeople will give you a bump in motivation and production.

A real estate manager had been putting up with very bad behavior out of her top producer for 5 and a half years. When I first suggested letting her go, the office manager told me I was “loony toons” because she comprised 41% of total office sales. When she finally had no other choice but to let her go, she said the next day it was like a weight had been lifted. That day, two of the bottom producers quit, and the other people started working because they realized she meant business. The result was a 53% increase in sales the following year and in the cases where they competed head-to-head with the former agent, they won the business 11 out of 13 times.

continued on page 20
Thanks For The Memories  
continued from page 12

I have no way of proving it. So what if I did begin the dealer's interest in pushing the needle on the dial up in Consultants' Heaven? I have a dealer friend who ten years ago hit 100% and now calls me every year with his new Absorption Rate, and it is now running 132%. Call me every year Charlie, I'm always glad to hear from you and the personal “atta-boy is always appreciated.

Bob Currie, great at everything he does. I believe he is younger than I am. Before I joined the consultant's corps I hired Bob to do a series of seminars for the last company I ever worked for. He always does a great, great job. Bob does a great job analyzing numbers on dealer's financials. He's made Twenty-Groups popular and extremely effective. Bob and I have always been in sink on the department numbers and what they should tell a dealer. By the way, here is a prediction Bob made years ago: He indicated that in the future at a minimum 50% of the equipment dealer's employees will be technicians. It is not a guess any longer, the average dealer has surpassed that prediction.

One thing I've never understood, he does great work on showing dealers the techniques of parts and service marketing. Throughout all my years, I have stood fast on equipment dealers having an employee out in the field selling the dealership's product support to the customer. Bob on the other hand, tells anyone in the equipment business that it is all a waste of money and should be discontinued. The dealership in most of his Cost of Doing Business Studies in most industries is posting in service a 62% to 65%, but then check out their Service Contribution . . . it is in the single digits. Take a dealer principal through his Descending Sales Reports and show him all the money he has left on the table. Caterpillar a few years ago, claimed their dealers were leaving world-wide $18 billion in lost product support sale, that certainly is not “chump-change". Someday Bob, I hope we meet and you tell me why you are adverse to Product Support Sales Personnel. Please don't tell me it is a job for the equipment sales person.

Stu MacKay, now here is a real genius with the numbers concerning customer usage of parts and service. The work he has done for manufacturers over the years is outstanding and should be more available to dealers for studying. He has excellent material for dealers who have a difficult time figuring out what their product is worth yearly in product support sales for the equipment they sold. Stu it has been a real pleasure knowing and working with you.

Now to Bill Sharp, Bill conducts one hell of a “Boot Camp" program for new employees and particularly those entering the area of product support. Bill and I have worked clients together and on several emergencies he's “filled in for me" and I know from some of my own experiences this is no simple task. Thanks, Bill for being a good friend and always willing to lend a helping hand.

Now for the Associations; they are all great people, fun to work with and great to known for their contacts. I was very lucky at the start of my consulting career to “hook-up" with numerous associations. They provided me a whole lot of business, contacts and friendships. I've had many associations forward me leads which in turn become customers, I've had associations request information for their members and if I have what is required, they get it . . . it has been a relationship that has been profitable for both my company and for the associations.

I'll single out two of my association people who I would like to thank for singling me out for one of the best opportunities imaginable. Dave Kahler was Executive Vice President for the Ohio Farm Equipment Dealer's Association, Bill Garling was Dave's Operation Manager. The three of us were seated in a fast food restaurant in a small South Eastern Ohio town to convince me to write, once a month a four page article which they would put in their monthly member's magazine. Now, for awhile all I could think about was facing a “dead-line" every 30 days writing an article about something that had to do with the equipment dealer's product support sales. I hesitated and kept turning them down . . . I just felt it would tie me down causing more problems than value . . . but at Dave and Bill's persistence, I caved and I will tell you, my readers: It was one of the best moves I have ever made in my entire life. I have received business throughout the world. I have no worry about selecting topics because they will end up sending me their ideas for topics and I'll build and article around their thinking. I was given the idea of writing this article by an association manager, who has been a great friend for years. This article; ends up being #327 and that Ladies and Gentlemen is a whole lot of words. It has been a work of enjoyment and fortunately every now and then I'll get an “atta-boy" from someone out there and of course nothing peps someone up any better than words like “Great article this month, keep up the good work!" Thanks, again Dave & Bill for not letting me talk myself out of writing all those articles.

Dealers/Distributors, a few words of advice, a few important steps for you to take which should make your job not only easier, but much more profitable. You, your father, and possibly your great grandfather probably went into business to serve the community and make an appropriate profit for your effort . . . somewhere these goals got shuffled around. In this article I don't want to end on a negative note and I'd like to end with a few comments to increase your profitability and enjoy yourself all at the same time. You've all heard speakers at one time or another say to the audience: “If you don't enjoy what you are doing, then get out of what you are doing!" I told you at the start of this article, I was fired, I discovered life did not end at that point and went out to find a dream that happened to not only provide me with a good income, but more
important allowed me to enjoy what I did. I would not have retired if I could have avoided not only the hard travel but the airlines themselves. As my wife told me: For 60 years I have been on the road, now is the time to enjoy yourself.

As dealers, the couple of items I’d like to leave you with are: Think about what I said about 1) Absorption Rate. Added profit covers a whole lot of sins and achieving 100% Absorption Rate is not all that difficult, but I assure you it takes a lot of work and commitment. Make your product support managers responsible. 2) Stop telling yourself your problems about increasing your overall Service Business, especially when you have a list of customers who bought a “ton” of equipment from your dealership and are taking that equipment to: a) their own shop, b) the local “shade-tree or independent.

3) Stop believing that finding technicians is too hard to do, because if you continue on thinking that way you will never change your mind and realize that it is hard to find technicians. One of my best friends is a highly successful equipment dealer. He has over 300 technicians and is looking for yet another 30 before the year is out.

Funny thing is I know he will find them, because he does not sit around with the excuse that “technicians are hard to find!” Think Positive, stop being re-active and become pro-active! 4) Stop worrying about equipment “market-share”, run a profitable dealership and the world will beat a path to your door. If you have to worry about the profit you gave up to sit at the President’s Table on Awards Night in order to accept a glass globe, think about how unenjoyable that is and look elsewhere to support yourself and family.

Well, someone has said this at some point in their life, I didn’t, nor will I take credit of this month’s article title: Thanks for the memories! I’ve enjoyed writing this, I like the editors who allow me the freedom to say what I felt . . . I like everyone out there in the equipment business and for all these years have thought of you as The Salt of This Earth! THANKS FOR YOUR BUSINESS.

If you ever want to reach me, my phone number is (803) 548-6707 or 918-230-0791, John R. Walker, former President of AFTER MARKET SERVICES CONSULTING COMPANY – e-mail: amsconco@gmail.com.

ESOPs continued from page 14

proceeds and a dividend tax when the sale proceeds are distributed to the owners.

In addition to the tax rate benefit, sellers to an ESOP can also defer tax for many years in certain situations. Similar to a tax-free like-kind exchange involving real estate, the sale of 30% or more of the shares of a “C” corporation (dealers that are “S” corporations can usually convert to a “C” before a sale) to an ESOP allows sellers to postpone the payment of tax on the sale proceeds if they use the proceeds to purchase “Qualifying Replacement Property” within 12 months of the sale (e.g., invest in publicly-traded company stock). Capital gains tax can even be eliminated permanently if the replacement property is held long-term and eventually goes into your estate.

Tax benefits also apply to the dealership after the sale. If the dealership is or becomes an “S” corporation after the sale, the income from the business will be tax-free because an ESOP is a tax exempt entity. This tax benefit helps the ESOP make the loan payments needed to fund the purchase and can also result in accelerated equity growth that is important from the standpoint of manufacturer expectations and for purposes of funding additional acquisitions.

What Qualifications do I need to use an ESOP for Owner Succession Planning?

The good news is that most dealers will be in a position to consider an ESOP. While there are many requirements involved in establishing and maintaining an ESOP, any dealer structured as a corporation with an active and responsible management team that will remain in place after the sale can consider an ESOP. The use of an ESOP in connection with an LLC is an emerging area that may also work in certain situations.

How can an ESOP solve issues for Large Dealer Organizations?

An ESOP is a way to create your own buyer for a dealer organization that may otherwise have limited options. For dealerships that aren’t currently looking at an exit, this should help give you confidence that a future exit strategy can be found even while your organization remains in growth mode. In addition, a partial ESOP sale can also be a tool for helping to fund the purchase of stock from retiring owners now and in the future without requiring new investors.

Conclusion

The challenge of succession planning for large dealer organizations is something that dealers and manufacturers need to be thinking about now as the consolidation of dealers continues and the ownership base grows older. As part of this process, an ESOP should be evaluated as a tool for helping to foster transitions among these owner groups. Over the course of our next few articles, we will take a deeper look at ESOPs from the perspectives of the sellers, employees/management and manufacturers.

Lance Formwalt is the leader of the Equipment Dealer Group at Seigfreid Bingham, P.C. The firm also serves as legal counsel to equipment dealer associations and many individual equipment dealers. Lance may be contacted at lancef@sb-kc.com or 816-265-4106. Also see www.sb-kc.com. This article is intended to provide general recommendations and is not intended to be legal advice. You should always consult your attorney for advice unique to you and your business.
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OFFER EXPIRES August 2016
The Department of Health and Human Services (HHS) recently released the Final Rule implementing Section 1557 of the Affordable Care Act (ACA), which prohibits certain types of entities from discriminating in health programs on the basis of race, color, national origin, age, disability, or sex (including gender identity-based discrimination). Most affected entities are not likely to have discrimination issues related to most of these categories; however, the new rules include significant requirements related to health coverage for transgender individuals that may force changes to current benefits.

Background
There is no specific requirement under the ACA for medical plans to provide coverage of transgender-related services; however, the Final Rule provides that most exclusions in coverage for health services related to gender transition are discriminatory. Therefore, group health plans subject to the Final Rule, whether directly or indirectly, may be required to include at least some transgender benefit coverage to avoid being considered discriminatory.

The Final Rule generally applies to “covered entities”—health programs and activities that receive federal financial assistance administered by HHS. Covered entities subject to the Final Rule include:

- Health insurance issuers that offer health plans through a public (state or federal) Marketplace;
- Issuers with health plans that participate in Medicare Advantage and Medicaid;
- Group health plans that receive Medicare Part D subsidies; and
- Providers that accept Medicare (except for Part B) and Medicaid.

Importantly, the Final Rule applies to all operations of a covered entity. For example, the rule would apply to all TPA services provided by a health insurance company that is subject to the rule, and to a group health plan offered to the employees of a medical provider subject to the rule.

Impact on Employer-Sponsored Group Health Plans
It’s important for employers to understand exactly how the rule may affect employer-sponsored health plans. Most employer-sponsored group health plans are not directly subject to the Final Rule. However, since most health insurance companies will need to comply, employers purchasing fully-insured plans will end up providing the coverage to employees because insurance companies simply will not sell a plan that does not include these services.

HHS has limited the scope of the Final Rule as it relates to employer-sponsored self-funded plans (as long as the plan is not directly receiving federal financial assistance). However, self-funded plans that utilize a TPA may be affected if the TPA is part of an entity that is subject to the Final Rule. Self-funded employers should communicate with their TPA as soon as possible to determine how the Final rule may affect their particular group health plan.

Summary
Even employers not directly subject to the Final Rule may end up providing expanded coverage for transgender-related medical services. Employers offering fully-insured coverage, and self-funded employers working with a TPA that is affiliated with an insurance company, may not have much choice if the insurance carrier and/or TPA determines it is subject to the new rules. The Final Rule can be found at (https://www.federalregister.gov/articles/2016/05/18/2016-11458/nondiscrimination-in-health-programs-and-activities), and the HHS Fact Sheet (http://www.hhs.gov/civil-rights/for-individuals/section-1557) provides a summary of the Final Rule along with additional information.

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Consider Laying Off Salespeople
continued from page 16

The point of this story is: first, your 20% aren’t always your lowest performers, and second, in addition to low performers, you also have to deal with your attitude issues. Underperformers and negative people infect everyone. It is literally like letting someone with a contagious, deadly disease openly walk the floor of your business.

No one likes to fire people and yet, that isn’t a sufficient reason for not doing it. The goal of laying off your non-producers and attitude problems is to eventually end up with a sales team that is hitting on all eight cylinders and in which you don’t have to fire anyone. How do you attract better employees? Become a better company, one in which people are held accountable and negative attitudes are jettisoned.

Note: Your number may be something other than 20%. It may be 40%, or only 10%. This is really a question of who is hurting your organization and who is helping?

Getting rid of your chronic underperformers and attitude issues will make you a more credible leader. It will motivate all others to either leave or get to work. Resentment will disappear. You’ll stop wasting the time of all your support people. Morale will increase. And you will see a positive impact, and most likely a substantial one, to the bottom line.

John Chapin is a sales and motivational speaker and trainer. For his free newsletter, go to: www.completeselling.com. John has over 28 years of sales experience as a number one sales rep. and is the author of the 2010 sales book of the year. He can be reached at 508-243-7359 or johnchapin@completeselling.com.
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Notes on Filing the Form 2290

The annual filing for the federal heavy vehicle use tax, which is reported on Internal Revenue Form 2290, is due at the end of August. Most large fleets probably file electronically, and that seems most efficient. E-filing of the 2290 is not free, however; carriers will need to use a third party's e-filing system.

Filers also need to have a federal employer identification number to file electronically; IRS will not accept a social security number. An EIN is easy - and free - to get, directly from IRS at www.irs.gov. Finally, while it is still possible for carriers to file in person at an IRS office, those offices no longer accept walk-in traffic for that purpose; you must have an appointment. (And IRS no longer has offices in some states at all.) Appointments may be made by calling an IRS office or at www.irs.gov.

IRS Offers Training on Health-Care Reporting

The Internal Revenue Service has posted on its website a 42-minute webinar on how employers should make any needed corrections to the various forms now required under federal law for reporting aspects of employee health plans. This newest and other related webinars are available at the IRS Video Portal at http://www.irsvideos.gov/.

FAA Completes Landmark Rules for Commercial Drones

WASHINGTON – New drone rules from the Federal Aviation Administration limit most small commercial drone operations to daylight hours and require operators to get certified every two years.

The rules, made public 6-21-16, mark the FAA’s first attempt at a comprehensive plan to ensure the popular remote-controlled aircraft can safely share the skies with commercial craft.

The FAA has already granted special permission for more than 5,300 commercial drone uses while it developed the final rules. Tuesday’s action opens the floodgates to tens of thousands more because drone operators won’t need to seek case-by-case approval.

The FAA’s 624-page rulebook allows commercial drones weighing up to 55 pounds to fly during daylight hours and lower than 400 feet in the air, or higher if within 400 feet of a taller building or tower. The aircraft must remain within sight of the operator or an observer who is in communication with the operator. The operators must be at least 16 years old and pass an aeronautics test every 24 months for a certificate and a background check by the Transportation Security Administration. The rules govern commercial flights, such as for aerial photography or utilities inspection.

Drones can operate in the evening only if the aircraft carries lights visible for three miles, FAA Administrator Michael Huerta said. Drone operators who want to conduct night flights, flights beyond what the operator can see or flights over people not associated with the operation would need demonstrate specific safety measures and seek a waiver, Huerta said.

“The department is working cooperatively with industry,” Huerta said. “We certainly see the benefit of this. What we need to see is that it can be done safely.”

Sarah Kreps, a government professor at Cornell University, said the regulations take modest steps to ensure safety with drone flights, but that a method to enforce the rules seems to be missing.

The rules show that FAA thinks drones, which are used for utility inspections, construction surveys, agricultural monitoring, university research and search-and-rescue, can safely share the skies with passenger planes, Lisberg said.
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OSHA TIP OF THE MONTH
Cleaning for Three Trouble Areas in the Service Bay

Keeping a facility clean and organized ensures better compliance with environment and safety regulations. It is also connected to improved productivity and employee morale. Take a moment to see if these three common trouble spots are being addressed at your facility. They can actually indicate the overall performance of your safety program, and are usually targeted during regulatory inspections.

1. **Food and Beverage in the Service Bay**

   The service bay is filled with oils, sprays, lubricants, and other hazardous chemicals. For this reason, the service bay (and body shop, detail area, etc.) is classified as a hazardous chemicals area, where it is illegal to prepare or consume food.

   All food (including bagels and snacks) should be restricted to the break room. Food storage and preparation equipment also needs to be restricted to the break room.

   The law permits some beverages in hazardous work areas, but with restrictions. All drink containers must be covered, and containers should clearly indicate contents.

2. **Eyewash Stations**

   All stations need to have documentation of monthly inspections and maintenance, as prescribed by the manufacturer's specifications.

   Stations need to be kept clean, in proper operating condition and accompanied by a correctly mounted sign. All stations must be easily accessible for emergency situations.

3. **Clear the Clutter**

   Get rid of small groups of empty compressed gas cylinders, used batteries, full roll-arounds, and similar items that tend to collect in the corners of work stations and in quieter places in the service bay. All of these can bring fines if they are not properly stored or disposed.

   These areas won't clean themselves. Enlist the help of employees or supervisors who work in the service area to monitor and address housekeeping issues for that area. Because they are the most familiar with the area and its problems, these individuals often are the best resource for suggesting the tools or equipment to eliminate or resolve housekeeping issues.

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**Education**

**VA GI Bill Feedback System**

**Q:** I am currently attending school using the Post-9/11 GI Bill. When I was recruited to attend the school, they promised me equipment that I have not received. As a result, I am failing my class! I have already spoken to the president of the college. What is my next step?

**A:** VA has a website called the VA GI Bill Feedback System. This will allow you to file a complaint if your school is failing to follow the tenets of the Principles of Excellence program. VA will review the following types of complaints: recruiting/ marketing practices, quality of education, accreditation, grade polity, financial issues (e.g. tuition and fee charges), release of transcripts, student loans, transfer of credits, post- graduation job opportunities, refund issues, and change in degree plan/ requirements, among others.

   The website for the compliance system is: www.benefits.va.gov/gibill/feedback.asp.

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24 ...“Committed to Building the Best Business Environment for the Northeast Equipment Dealer”
Deere Aiming to Grow Its India Operations

If reports in the Indian press are accurate, John Deere is eyeing a major expansion in that country, which will put it head to head with some of the largest and well-established manufacturers of farm tractors.

According to a July 5 report in India’s Business-Standard publication, Deere is aiming to reach a 15% market share in the country where tractor makers Mahindra & Mahindra, Tractor and Farm Equipment (TAFE) and Sonalika dominate the domestic market. Mahindra and TAFE are also major exporters of lower horsepower tractors.

The paper reports, “Tractor maker John Deere India is aiming for a 15% domestic market share in the next 3 years. Currently, it holds 6.7% market share of total business. The company also claims that it is the largest exporter of tractors from India continuously for the last 13 years with 2 lakh plus units (2 million-plus).”

Kubota Finalizes Acquisition of Great Plains

Kubota Corp.’s acquisition of Great Plains was finalized on July 1 and leaders from both companies told dealers at its recent national dealer meeting in Kansas City, Mo., that it’s “business as usual.” Confirming messages from the earlier announcement of the pending acquisition, all five Great Plains divisions will operate as they have been with their infrastructure intact.

Kubota has had a marketing agreement with Great Plain’s Land Pride division since 2007 and expanded that last year to include skid steer and construction attachments.

On the company’s approach to dealers, Todd Stucke, Kubota’s vice president of sales and marketing, says, “There is no mandate. On the dealer side, we want to earn that business and entice the dealers to want to carry our brand. As far as Great Plains, it’s wherever the contract is open. If the contract is open and a Kubota dealer can provide the right product support, he may have the right to have that contract.”

July WASDE Called ‘Neutral’ for Farm Machinery Sales

USDA updated its World Agricultural Supply and Demand Estimates (WASDE) for the 2016-17 crop season on July 12. With July weather being a critical factor in overall crop production trends, industry observers rated the report “mixed” or “neutral” for sales of farm equipment.

In a note, C. Schon Williams, analyst with BB&T Capital Markets, reported, “Cash receipts are forecast to be down 0.4% year-over-year, which is a slight improvement vs. our June estimate (~1.1%). With the cash receipts forecast now flattening out, we are now more neutral (we were bearish) on agricultural machinery demand.”

Production estimates for corn, soybeans and wheat increased vs. USDA June estimates, says Williams. Similarly, ending stocks for all three crops moved higher vs. the prior month’s estimates. The average price range for corn and wheat decreased, while the average price of soybeans was unchanged vs. last month.

Rising Crop Input Costs Continue to Compete with Equipment Spending

Farmer input costs have been among the top three North American farm equipment dealers’ major concerns over the past 5 years, including number one in 2015, according to the results of annual Dealers Business Outlook & Trends survey — and for good reason.

The more farmers spend on inputs, like fertilizer, seed, pesticides, etc., the less they tend to invest in equipment.

In an interview prior to the Top Producer Conference in June, Michael Boehlje, Purdue University economics professor, said, “It’s not all about grain prices. To be frank, it’s more about what is going to happen to input costs that is important.”

### Fertilizer, Pesticide & Seed Costs Per-Acre

- **Fertilizer**
  - Costs: $5 to $15 per acre
- **Pesticide**
  - Costs: $2 to $4 per acre
- **Seed**
  - Costs: $5 to $10 per acre

Between 1990 and 2006, input costs grew at an average annual rate of 2.6% for fertilizer, 3.5% for pesticide and 4% for seed. Between 2006 and 2015, growth rates averaged 8.1% for fertilizer, 5.7% for pesticides and 11.3% for seed.

Source: Illinois Farm Business Farm Management

~ AEI
How Old is the U.S. Fleet of Farm Tractors?

One of the questions most often asked of Ag Equipment Intelligence editors is what is the average age of the tractors in use on U.S. farms?

The fact of the matter is no one can say with any certainty. This is because, unlike automobiles and trucks, which must be registered and licensed, the same requirements are not applied to off-road vehicles, like farm tractors. While Uniform Commercial Code (UCC) filings track new sales, there are few if any records that follow the vehicle after it passes from the original owner.

At this point, the best we can do is study USDA’s Census of Agriculture, which is conducted every 5 years. Using this data, Ag Equipment Intelligence editors took a look at each of the three horsepower categories of tractors and developed the adjacent table and chart.

~ AEI

### U.S. Tractor Units Aged Less Than 5 Years

<table>
<thead>
<tr>
<th>Model Year</th>
<th>Total</th>
<th>Manufactured 1992-93</th>
<th>Total</th>
<th>Manufactured 1993-97</th>
<th>Total</th>
<th>Manufactured 2003-07</th>
<th>Total</th>
<th>Manufactured 2008-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;40 HP (PTO)</td>
<td>2,827,275</td>
<td>284,734</td>
<td>2,632,536</td>
<td>285,522</td>
<td>1,415,807</td>
<td>121,715</td>
<td>1,280,093</td>
<td>142,117</td>
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<tr>
<td>40-99 HP (PTO)</td>
<td>NA</td>
<td>NA</td>
<td>1,808,105</td>
<td>173,756</td>
<td>2,066,720</td>
<td>190,945</td>
<td>1,998,508</td>
<td>250,743</td>
</tr>
<tr>
<td>100-plus HP (PTO)</td>
<td>NA</td>
<td>NA</td>
<td>915,360</td>
<td>118,062</td>
<td>1,110,018</td>
<td>122,558</td>
<td>1,111,265</td>
<td>137,242</td>
</tr>
</tbody>
</table>

Source: USDA Ag Census

Combine Sales Improve in June

While overall North American large ag equipment sales remained weak in June, combine sales showed improvement and were up 12.9% following months of declines of 25% or more, said Mircea (Mig) Dobre, an analyst with RW Baird in a note to investors. In addition, compact and mid-range tractor inventories are at all-time highs with risks of building, he said. June 2016 marked the 29th month of large ag equipment year-over-year declines and a somewhat larger decline than the prior month.

~ AEI

![JUNE U.S. UNIT RETAIL SALES](image)

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