CRITICAL MASS

Consolidation among farm equipment manufacturers and dealers. Does it harken to changes in the seed sector?

AND THEN THERE WERE THREE… Three major farm equipment manufacturers dominate the farm equipment business: John Deere, AGCO and CNH. And between them, they command an estimated 90% of the farm equipment market.

Just a decade ago, 1,263 companies produced farm machinery in the U.S., delivering nearly $16 billion in products. Today sales are up to a whopping $40 billion. Hundreds of businesses still engage in manufacturing, but some estimate the drop in shortline manufacturing companies to be 30-40% in the past decade.

In turn, consolidation of agricultural manufacturers has led to consolidation of dealers. In 1997, there were 6,937 farm equipment dealers; now there are an estimated 5,600 in the U.S. Some of the effects on the retail level are particularly interesting.

Highly sensitive to farm income, the industry experienced a major shake-up in the 1980s. The number of farm equipment dealers declined due to major manufacturers slipping away, inventory costs increasing, and the cost of parts and service departments.

In some cases, the major manufacturers became aggressive about consolidating the dealer network, forcing some mergers and acquisitions. Many small dealerships fell by the wayside. Others were forced to take on additional brands or lines, while in yet other cases, lucrative markets like lawn and garden equipment were taken away from agricultural dealers.

At one point, this became so messy that some states passed laws making it harder for manufacturers to terminate a dealership contract in the case of ownership or management changes. Some also prevent manufacturers from canceling a contract because the dealer refuses to pay for national advertising initiatives or to accept delivery of certain equipment.

"All mature industries confront consolidation," observes Dave Kanicki, Managing Editor of *Farm Equipment.* "As U.S. farms get larger, they're demanding more from their equipment dealers in terms of service and technology. Dealerships have merged and formed partnerships in order to develop the size and scope required to provide these services." Kanicki notes that industry consolidation will continue, "but probably at a somewhat slower pace as equipment sales have risen in the past few years."

THE TAKE AWAYS

1) You ain't seen nothing yet! – Consolidation in the seed industry still does not have the three major players close to dominating 90% of the entire farm market
2) Effects will trickle down to the retail level
3) Retailers need to be highly service-oriented
4) Relationships with suppliers can make or break you just as much as relationships with customers
5) Mergers were a big part of the consolidation process. Seeking partners can be better than closing the doors

MAJOR PLAYERS

The three major U.S. players that manufacture and sell farm equipment are:

1) John Deere & Company - $19.9 billion in 2006
2) Case New Holland - $12.1 billion in 2006
3) AGCO - $5.4 billion in 2006