Why Add or Drop Product Lines?

Every dealership must decide to add or drop product lines. Dealers may also consider adding new lines to serve a different customer base. For example, ag equipment dealerships have added construction, outdoor power equipment, irrigation or renewable energy products to expand their penetration into the farm market or to reach out to entirely new markets.

Recent events show the breadth of new product opportunities available:

- BTI, a farm equipment dealership in Kansas, has formed BTI-Wind to distribute Endurance wind turbines through U.S. John Deere dealers
- Vermeer has unveiled a new cob harvester for the emerging biomass market
- Italian Trade Commission is promoting specialty farm equipment in North America
- Indian, Chinese and Korean tractor makers are expanding their offerings in North America

In our dealer Best Practices groups, we pose two key questions to dealers who are evaluating the product lines they represent:

1. Can your dealership be more profitable representing this product compared to a competitive product?

2. Can this product line give your dealership a real marketplace advantage?

Answering the first question and how best to manage new, shortline, specialized or allied products for maximum return is the focus of this article.

Dealers will always have opportunities to add products because of the number of new products or new competitors. But there are compelling reasons to drop products and focus on growing sales and profits from fewer brands and products. We'll examine why you should add or drop products from a financial perspective.

Why Add Products?

The reasons dealers add product lines are usually pretty straightforward:

- Better margins
- Diversification
- Lower market costs to capture new accounts

New products often generate better margins because they don't have direct competition. In our experience with over 400 dealers representing several different industries, the "Other Products" often show better margins than the primary product.

> "More businesses fail because they try to do too many things, not because they didn't have enough product lines to sell..."

But...

Better gross margins should not be assumed to be a given or sustainable. If better margins result because there is little or no competition, an attractive product category will surely attract competitors. If a new product is successful, many competitors will jump into the market. Examples of these in ag equipment include strip-till equipment and self-propelled sprayers.

Better gross margins may not mean the best bottom-line returns. New products generate a lot of "hidden" costs for a dealership and the total costs must be correctly calculated or assigned. For example, replacement parts for new products likely will not use the same ordering or inventory control systems — if there are any systems at all. The time required to manage each new part number can be high and the risk of overstocking or obsolescence can be much higher.

Your dealership is an investment and, with all investment strategies, diversification is a key principle of success. A more diverse product range is what drives many dealers to add new products. With the cyclicality of the farm equipment business, it is good to have alternative products that will sell during the down-cycles of your main line.

New technologies are often a solution to the farmer's cost pressures in a down-cycle and offer the opportunity to expand the customer base and revenue when sales of more conventional products are stagnant. Two examples are precision farming systems and grain storage.

Dealers tell us that this last point is very important for growing market share in any market. If you're trying to sell the first product to a new customer who is brand-loyal to another manufacturer, a product with a new or unique technology may give you that edge and open the door. For example, a Deere tractor owner may not consider your other brand of trac-

tor but she may consider a new style of mixer wagon that you are now selling. Once she experiences your service capability and responsiveness, the possibility of a future tractor sale is more likely.

But….

Diversification requires resources in time and financial resources, so be sure to consider the investment vs. the return.

Why Drop Shortlines?

The most compelling reasons to drop shortline and specialized product lines include:

- To focus resources to grow key products
- They produce insufficient returns
- They're redundant products

The primary reason to drop products is because of the need to focus on more profitable items or your mainline products. Even if a product is more profitable, you may need to improve the revenue and/or returns from another line. Sometimes this is because of pressure from your mainline supplier or it may be because dropping the line is just better for your business.

"Better gross margins may not mean the best bottom-line returns..."

Spreading your efforts over too many products may mean that you're not maximizing the potential of your core business. More businesses have failed because they tried to do too many things than have failed because they didn't have enough product lines to sell. There are many examples of dealers who refocused their business by reducing product lines and have grown their businesses as a result.

The most clear-cut reason to drop products is that they're not making enough money. Dealers who calculate the hidden costs of carrying a particular line often drop it even though they had considered it attractive to their customers.

But….

Make sure to consider the best practices in managing additional products first. *(See "Best Practices" sidebar on this page.)*

Another reason for dropping products is because your main or anchor brand now offers a similar product and there is no need to offer both. The major brands are continuing to add products to make it easier to drop "off-brand" product lines. Over the last 15 years, all of the majors have acquired shortline companies to fill competitive product gaps or to offer products for precision farming. In addition, both Deere with Frontier and CNH with Work-EZ are establishing new brands and adding product lines with the obvious intent of helping their dealers drop their current shortlines products.

These product lines may not be as broad or as state-of-the-art as alternative brands, but they're usually adequate enough to safely consider dropping a competitive line. FE

Best Practices for Managing Additional Product Lines

Our experience from our Best Practices dealer groups is that sales revenue is not the main reason for success in a dealership's profitability. Controlling expenses is the single most important factor that leads to dealer profitability.

For allied products, the dealer must manage expenses closely and consider the hidden costs of adding and carrying additional products. These include:

- Inventory cost including obsolete and/or excess
- Time to deal with multiple company representatives and systems
- Warranty and policy costs

Be careful when considering new companies with new products. The product may look good but the company may not be on a firm financial foundation or have systems to support parts, service or warranties. When your salesmen approach you and suggest adding a new product, or a manufacturer's representative tries to sell you a new product, make sure that you also include your parts and service people in the discussion.

Try to simplify your relationship with potential suppliers, for example, on warranty policies and processes.

Over the years, we've seen dealers scrap a lot of new product parts or machines because they lacked the proper inventory control for products that don't fit well into their systems. In addition to investing extra time to stay on top of these products, be sure to get up-front buy-back commitments during the first few years of representing the new product.

Here's an example of how a product with a lower margin but better inventory turns produces a better return on investment. Product B may look two points better in margin but that advantage is lost because of much higher inventory cost.

	Product A	**Product B**
Sales Volume	$1,000,000	1,000,000
Cost of Goods Sold	$ 900,000	$ 880,000
Gross Profit $	$ 100,000	$ 120,000
Gross Profit %	10%	12%
Inventory	$ 300,000	$ 450,000
Number of Turns	3.0	2.0

Adding or dropping products from your dealership has consequences. Either decision can be beneficial provided that it improves your financial and market position.