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Foreword

The 2010 Cost of Doing Business Report

Foreword by Garry Bartecki, CPA
AED Staff Vice President, Finance & Administration

One hundred thirty-one participants. Can you believe it?! A big thank you to all who contributed to this report, which helps AED members understand how various types of dealers weathered the economic storm of 2009.

Once again, participants provided each report category, either by type of sales or sales volume – with a meaningful number of companies represented. As a result, any dealer reading this report should have benchmark data to review against 2009's business activity.

All in all, participants fared better than I expected, considering the sales change between 2008 and 2009 noted at the top of pages 25 and 31. Pretty dramatic drops occurred, and yet any negative bottom-line results are minimal. I have to say, the ability of AED members to manage their dealerships continues to amaze me. Dealers experienced excesses of 30 percent sales drops and still they continued to break-even, many even squeezing out a "profit." Great work, people!

In last year's preface remarks, I directed readers to various pages of interest, which I will do again, only this year I want you to start with pages 44-49 to get a full sense of what took place between 2005 and 2009 – a period containing both the best and worst years in this business.

Reviewing pages 44-49 really tells a story. Even with a tremendous sales drop in 2009 (page 44) the Gross Margin 22 percent is the highest for the period being presented. The Profit Before Tax, however, is the lowest of the five-year period and basically a break even.

As you look at page 46, it is interesting to see how equipment margins slipped while parts and service margins held their own, which leads us to page 49's absorption factor of 63.8 percent, also the highest over this five-year period. The Employee Productivity Ratios on the bottom of page 49 reflect that we did more work with fewer people, as well as support the parts and service findings noted above.

Before we leave page 44, note the 2009 typical sales dealer (top of page) would have been a \$42 million operation prior to the sales decline. *Big change*. The point I want to make is this: The economic experts predict that this industry is not going back to 2006-07 levels and that you should not plan on doing so unless there is a specific reason, such as you bought a company or a competitor left the market. A slow recovery is also expected, which you should keep in mind while preparing your 2010-'11 projections. In short, don't get ahead of yourself, and continue to control both profits and cash flow.

Going back to page 9, readers have a chance to review our 2009 "High Profit" dealers to see how they compare to the "Typical" dealers. Even with an 18 percent sales reduction (page 13), these dealers performed extremely well. Further investigation reveals that these are the larger dealers with median sales of \$52 million. Margins were a little higher, but Operating Expenses were all lower, generating a 3.8 percent difference in Operating Profit, or approximately \$2 million dollars of additional profit.

Pages 18-19 once again show that the dealers with the higher percentage of rent-to-rent sales produce the higher gross margin percentage and segment contributions.

The Balance Sheet data on page 20 reflects high equity balances, even when compared to the five-year trend analysis. I expected many dealers to burn through their equity to the point where recovery would be restricted. For our CODB participants, however, that appears not to be the case. On the other hand, the EBITDA to Sales percentage on page 21 indicates a fall-off where cash flow from operations is concerned.

When comparing dealers selling equipment 100 HP or less compared to 100 HP or more, the larger dealers selling the larger equipment realized better results, which seems to be the case every year.

In summary, I am impressed with the way our dealers handled 2009. Very impressed. Maybe it's because most COOs and CEOs have been through this before, and the changes they knew how to make for an eight-month recession have carried them through all of 2009 and into 2010.

Whatever you are doing, keep at it until we are back on the road to recovery.

A handwritten signature in black ink, appearing to read "Garry Bartecki". The signature is fluid and cursive, with the first name "Garry" written in a larger, more prominent script than the last name "Bartecki".

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