



A CFO's Guide:

Making Your Equipment Dealership Leverageable, Auditable & Financeable

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By Mike Lessiter

CFO Marty Buck is doing the very job he dreamt about as a 12-year old in Michigan.

After big-company experience in the computer and food industries, he joined Kern Machinery and the Camp family business as CFO in 2008. Kern Machinery needed support for the growth of the larger footprint the company was seeking, and Buck, who had known the Camps for many years, was excited to assist the family and take a key role in preparing for both acquisition and succession.

While meeting with him in the quiet of a converted farm house on the farm (where his 8-person department operates away from the action of the dealerships), the interview was anything but quiet. In fact, it was the liveliest discussion Farm Equipment editors have ever had on the financial side of the business.

"A doctor can look at someone's head and describe what they think is happening, or you can MRI the head and really see what's inside. That's what accounting and finance is — dialing down deeply and understanding the business."

Put simply, he says the job of every CFO is clear — to increase the wealth of the ownership and build the infrastructure so that the business can one day be handed off to the next generation. "My grandfather stressed to me that life requires us to leave the woodpile higher than we found it."

The CFO role, Buck says, is not often easily understood outside of the owners, auditors and bankers (because of the financing needed for the expansion strategy), but few people understand how a bridge is made but they still drive over it. Yet measurement of a CFO is very black and white. "If the owners' equity goes up, then the year went well."

During the interview, Farm Equipment got a chance to learn from an enthusiastic and gifted teacher, who provided crash-course lessons he peppers into discussions with his staff. He also shared his views about knowing your role, being intentional (rifle vs. shotgun) and being a steward of other people's money.

All About the Next Generation

Buck said when he first arrived at Kern, his inaugural speech to his staff on their mission was simple. "The reason we're here is to prepare ourselves for the future — and that future is defined as the succession to the next generation.



Marty Buck, CFO

Years with Organization: 7 (previously with Unisys and Bolthouse Farms, where he prepared the company for purchase by Campbell Soup). He knew the Camps as a supplier; the family grew carrots for the operation and provided equipment.

Role: "The job title of the CFO is the same here as in every company — to increase the wealth of the owners." He oversees finance and accounting, HR and IT and the other Camp family entities.

Marty Buck, CFO of Kern Machinery in Bakersfield, Calif., gives an overview of his definition of what a CFO is and the position's role in the larger organization. This video is part of the Dealership Minds Video Series, brought to you by Charter Software.

"The first thing we needed were leverageable processes, first so we were auditable then so we'd be financeable." The emphasis on financeable, he says was due to John Deere's strategy for its dealers and how pursuing that growth would require financing. "That meant we were going to manage from the balance sheet side so we'd have processes that were leverageable, auditable and financeable. And that's what we've done. We just acquired a group of stores in Idaho and Oregon; all of this was in preparation for that."

His remaining tenure will be about preparing for that next generation. To do that, he says, "We're going to take a pristine balance sheet and we're going to leverage it and we're going to create acquisitions. And then we're going to de-leverage it over the next 10-12 years and hand it off to the next generation." That will be done with new systems, the right people, a bigger footprint and stability that even out that risk.

The senior team understands that operating in a leveraged environment is more difficult than a cash-rich, strong balance sheet environment. But by doing so, changing to a new system and developing young people, he says, "We can all call it a job and hand it off to the next generation."

Balance Sheet First ... & Leveraging It

Buck says the farm equipment business, in which maybe 3 cents is kept after tax for every \$1 in revenue, is very much a "get-rich-slow" type of enterprise, with little room for operating error. "It's asset management. We must operate very tightly in our environment to slowly build that balance sheet."

Most owner-operators naturally want to talk P&L, but Buck says it's a derivative of changes in the balance sheet. "Increasing wealth can only be done in one of two ways: increase profit and decrease tax losses."

In a low-margin equipment business, a dealership increasing its AOR will, by definition, grow faster than the sustainable growth rate by which it can self-finance and thus need outside capital. "We're growing

Accounting & Finance: 'It Takes a Special Mindset'

Accounting and finance may be one of the least understood roles in the dealership. CFO Marty Buck says it's generally thought of as "counting the beans." That's OK, he says, because the people who know are the owners. And as an overhead function, he's quick to respond that "If you're not serving the customer, then your job is to serve someone who is."

Buck says it's a special breed of people who can do accounting and finance work — an administrative mindset, or the inherent need to make order out of the chaos. "It's the person who must have things square, who is never late." Incidentally, he adds that he's never had anyone working in his accounting department who hasn't had their vision corrected by glasses or contacts — the detail orientation always ruins their eyes over time."

Another key trait that few think of, he says, is the idea of not being given to envy. The CFO is a steward of money. "If you work in payroll, you can't be given to envy. It must be of no consequence to you what someone else makes. If that ever crossed your mind, you can't be in payroll. When I've questioned people about whether they could work in payroll, it's not about the technology or the tax reporting; it's about whether they can tolerate seeing numbers that could generate envy in some people."

faster than our self-financing rate of growth, which means we need to leverage the balance sheet.”

And that requires audited financial statements. It’s all part of the leverage, auditible, financeable strategy to allow Kern to grow the business knowing that it goes beyond the self-sustaining rate.

More Processes & Controls

To be leveraged, auditible and financeable, Buck says you need processes and controls — and no one likes controls.

Not unlike most family businesses, a lot of authority resided with Clayton Camp, president. “He signed the checks, was in the stores every day, knew the names of every employee and their wife and kids. We knew we had to move across that spectrum to go where we needed to go, and that included controls.

“We realized that the day was coming to follow the John Deere mandate to grow. We’re preparing ourselves with a system, we’re preparing ourselves with auditability and our understanding that you can’t get to every store every day. So if you’re going to go to a bigger footprint, you need to manage differently. It would do us no good to prepare to grow financially if we couldn’t manage the growth.”

And that meant the company would need to manage more by processes than by people. “Nobody likes to hear that. But if you’re going to grow you are tacitly accepting, knowingly or unknowingly, that you’re going to have to do it by process over people.”

That required a new business system. The Aspen system from Charter Software was what eventually won out. The company was working on the update while Farm Equipment was in town.

Buck recalls the day the new business system was green-lighted — again for auditible results, reporting and control. “We said it wasn’t going to make parts, sales or service administration any faster. So why did we do it? Because of the grand, over arching strategy to move us in a direction of being leverageable, financeable and auditible, so that we could grow the business.”

He also shared his experience from the computer business. “It’s way more fun to work for a growing business than a declining business. So you want your management team talking and thinking this way, even if you know it’s going to make your job a little bit harder. You can’t go and do anything you want in

Physics is Why Ag is Great Career Choice

Kern Machinery CFO Marty Buck says the fundamental reason he wanted to work in ag and not in, say the computer business, where he started, was physics. “While I was at Unisys, the computer business changed rapidly and we went from 127,000 employees to 25,000,” he says. “The changes in technology brought down the price of the product and eliminated the gross margin from hardware.

“Conversely, if you look at agriculture, and the tractor business, physics works for you. You cannot take the steel out of a tractor, it can’t be done. You need that big machine to pull tillage equipment across the field. Horsepower can’t be downsized. So I literally was looking at the long-term economic prospects of technology vs. agriculture and I chose agriculture because of physics. But I chose Kern Machinery because of the Camps.”

our business system. You need to do it a certain way, you must run through a voucher process, you must be able to create an auditable transaction with a date stamp and a name attached to it for every single transaction. It has to be auditable.”

Building Infrastructure

Beyond increasing the wealth of the owners, the other way of describing his role is building the infrastructure for the business to operate, or what's in the background supporting everything in the business. Inventory and what it takes to finance that inventory is an example. “Selling farm equipment is an inventory management business. So if we're going to have a change in inventory, then we need to talk about how to finance that inventory, and then talk about cashflow.

“We need to know our inventory turns in parts and wholegoods, our cash conversion cycle, or how many days it takes a dollar in for a dollar to come out. Measuring cashflow is a way for us to cross-check the effectiveness of our inventory.”

His position is building the infrastructure, or the trusted bridges, for capital structure, IT, business systems, employee programs and insurance that exist to support the business.

“Setting up your structure is critical. It's all a part of the analysis function to make the right decisions, and we need to make the right decisions because 3 cents on the dollar gives little room for error.”

Accounting's Battles vs. Sales ... No More

What Buck has to say about accounting's role with the sales department will be music to many salespersons' ears. While financial accounting is a straight and narrow path, management accounting is for the benefit of management, and that recognition of the difference alters the sales vs. accounting dynamic.

Buck saw some signs of conflict between accounting and the stores when he first arrived, something that is inherent at many dealerships. He maintains that accounting's job is to serve the one that serves the customer.

Analytical View of Management

Kern Machinery CFO Marty Buck has clear thoughts on management. First, he says, is his understanding that he never could improve anyone, despite what he believed as an exuberant young manager. “I've only recognized excellence when I saw it. The corollary is you must get rid of your subpar performers immediately; you aren't going to fix or improve them, so remove them immediately. In what world would you make a good person work with a bad person?”

Do that, he says, and management becomes easy. “You make sure they know what their job is, provide a system and tools and get out of the way.” After that first cleansing, which he found the rest of the team agreed with, Buck says he's spent less time on management than any other thing he does.

You find the winners, acknowledge them and then get rid of those not pulling their weight, he says. And for the heartstring sagas and question of morality, he also has an answer. “If I'm working to increase the wealth of the owners, what moral reason do I have for spending their money on someone I know to be substandard? None, it's no different than accepting gifts from a vendor.

“There's always someone who'd like to do their job, he says, noting that work is hired behavior, and good people like doing their jobs. He likened it to watching sled dogs in the Iditarod. “They can't wait to get in that harness and run. That's who you hire.”

Noting that his hiring success rate is about 50%, Buck says the key is correcting them until they get it right, or swiftly removing them.

"I told my accounting team we wouldn't complain about sales ever again because our job is not to enforce upon them a way of doing things. It's simply to report what they're doing and account for it. Whether the salesman calls it a lease, sale, rental, etc., we can get a diagnosis of the transaction and then account for it — whether it's a forward payment, rental, customer deposit or installment sale."

"No arguing with the salesmen, never again. Whatever way they structured the deal, we are good enough accountants to recognize the type of transaction."

Passing the Baton

At the end of the day, Buck says his role as Kern Machinery's CFO is like being in the 4-man relay race. The job is to get the baton, run your lap and hand it off.

"We're doing a lot of things on estate and long-term planning that will have ramifications long after I'm gone, and perhaps after the current people are gone. I didn't start this thing nor will I finish it, so it's about running my lap and handing the baton off. Success will be defined by how well we ran our lap and handed off the baton as we got to the next level."

Buck says he's been building infrastructure strategically, intentionally, to prepare for a lap he will not run. This includes multiple, ongoing changes in the medical plan, the 401k plan, the bank, the financial system, the accounting processes, the people. "It's all been strategically done for the one who's going to run the next lap, to hand things off to the next generation with the people and processes in place to continue their roll-up strategy," he says.



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