

EQUIPMENT AND TECHNOLOGY

EXECUTIVE SUMMARY

Kansas is home to agricultural equipment and technology companies in a broad range of sizes and specializations. Many of these companies have an international presence along with a strong presence across the U.S. Farming and ranching are a dominant segment of the state both economically and geographically, which creates an abundance of potential customers for agricultural equipment manufacturing and technology companies. The strong customer base, along with supportive state policies which encourage agricultural development, make Kansas a prime location for growth in the equipment and technology sector.

Challenges remain, however, and present possible barriers to continued growth. Establishing a reliable workforce is difficult in many agricultural sectors, and made particularly problematic in this field that relies on specific technical knowledge. Many new equipment and technology companies are small operations, and it is challenging for small entrepreneurs to get a foothold in the industry and market their products. There is no state association to provide support within this sector nor to advocate for the industry.

There is great potential for growth within the agricultural equipment and technology sector, but it will require input and discussion among key partners to develop a long-term growth strategy. Focused efforts to establish international relationships could open new markets. Existing state business resources could be directed specifically to agricultural business development. Enhanced educational and workforce development programs would expand the talent pool and support existing companies as well as attract new companies. A strategic growth plan built from collaborative efforts from public and private stakeholders is critical to the future of this sector of the agriculture industry.



STATUS

Kansas is home to agricultural technology companies of all sizes specializing in equipment for livestock and farming. Many of these companies have an international presence and impressive market penetration within the United States. The agricultural equipment manufacturing industry contributes \$3.4 billion to the Kansas economy and is the 20th largest industry in the state. Kansas is also home to agricultural technology companies of all sizes, as well as entrepreneurs who are working to discover new innovative ideas. Technology companies offer great potential to adapt their products and services to serve the agricultural industry.

Nearly 90 percent of Kansas' land mass is devoted to farming and ranching, providing ample customers for agricultural manufacturers' product lines. Pairing the prevalence of the agricultural industry with Kansas' pro-business climate and Midwest values makes Kansas a prime location for entrepreneurs to create or expand their businesses.

According to estimates prepared by the Kansas Department of Agriculture and based on the Implan economic data model, the farm machinery industry in Kansas has a total direct output of approximately \$3.6 billion and creates 6,028 jobs. The industry supports a total of 16,301.7 jobs and provides a total economic contribution of nearly \$5.2 billion. Taking into account all agricultural equipment (farm machinery, lawn and garden equipment manufacturing, food product machinery manufacturing, etc.), these sectors have a direct output of \$4.1 billion with an employment of 7,775. These sectors have a total economic impact of \$5.9 billion and support 19,309 jobs in the Kansas economy. Data on technology companies is aggregated; no data exists on number of technology firms and their economic impact.

OPPORTUNITIES

In order to develop a strategic growth plan for the agricultural equipment and technology sector, it is important to understand the areas where Kansas has a comparative advantage and the best opportunities for growth or expansion.

Factor	Implications for Growth and Development Opportunities
Existing Customer Base	<p>46.1 million acres are devoted to farming and ranching in Kansas, nearly 90 percent of the state's total land mass. Kansas has an abundance of potential customers for equipment and technology companies.</p> <p>The prevalence of agricultural equipment manufacturers and agricultural technology companies presents an opportunity for strategic partnerships to enhance equipment with the latest precision technologies.</p>
International Trade	<p>The Kansas Department of Commerce Golden Key Matching Service may provide export assistance to Kansas companies via U.S. commercial service programs.</p>

OPPORTUNITIES (cont'd)

Factor	Implications for Growth and Development Opportunities
Policy Environment	<p>Recent changes to the tax code have reduced state tax burdens on the agricultural community. Some of the key changes include a state income tax exemption for partnerships, LLCs, Limited Liability Partnerships, Sole Proprietorships and Subchapter-S Corporations.</p> <p>The High Performance Incentive Program (HPIP) provides sales tax exemption on the construction, reconstruction and remodeling of facilities for projects greater than \$50,000. Sales tax exemptions are also present for farm machinery and equipment and various ag-based inputs. These state tax code provisions make Kansas a more attractive state for growth or expansion.</p> <p>Also at the state level, Kansas works closely with the agricultural industry to ensure its protection from overreaching federal regulation.</p> <p>At the federal level, Kansas is fortunate to have elected members of Congress who strongly support the agricultural industry. The Kansas congressional delegation will play an important role in influencing positive changes related to federal regulations or legislation, international trade, federal taxes, transportation rules, natural resources and more.</p>
Workforce Development	<p>Kansas is home to a strong community college and technical college network that can provide training for manufacturers. There is potential to develop an apprenticeship program that could be piloted with agricultural equipment manufacturers already in Kansas. Additionally, an opportunity to consider is bridging Farmer Veteran Coalition resources (Fort Riley, Fort Leavenworth and McConnell AFB) with the U.S. Army's exit counseling centers to place Army veterans in open workforce positions across the state.</p>

SUCCESS STORIES

Key successes in the industry:

- Several highly successful agricultural equipment companies already manufacture in Kansas.
- A variety of national agriculture implement companies exist across the state via local dealerships.
- The current tax structure provides incentives for business development and expansion in the state.

CHALLENGES

While Kansas is poised for potential expansion in the agricultural equipment and technology sector, the following factors represent challenges serving as barriers to achieving the objective of the strategic growth plan.

Challenge	Details of Challenge
Critical Infrastructure	<p>A lack of adequate housing in rural areas compounds the issue of a shortage of agricultural workers.</p>

CHALLENGES (cont'd)

Challenge	Details of Challenge
Domestic Sales	Volatility of agriculture markets can be a direct inhibitor to growth in agriculture manufacturing. Concern over brand purity exists with some Kansas independent equipment manufacturers.
Industry Association	There is no real connection within the industry. Kansas does not have a sector association, rather AEM (Association of Equipment Manufacturers) is a national organization that hosts an industry sector for agriculture.
International Trade	Access to international markets for equipment products is a positive potential revenue stream. Resistance to free trade agreements at the federal level can hinder this access.
Policy	Federal laws and regulations impacting the agricultural community as a whole include Waters of the U.S., the Endangered Species Act and more. These laws threaten the profitability of farmers and ranchers which decreases their ability to purchase inputs such as planters, plows and other farming equipment. State laws outlining trailer title requirements, intellectual property (precision agriculture), transport limits and even minimum wage changes can be inhibitors to business success.
Small Entrepreneurs	<p>It is difficult for small entrepreneurs to get their products in stores to make them accessible to consumers.</p> <p>Marketing assistance is also difficult. It is difficult to find sufficient scale to make an economic impact on marketing efforts outside of Facebook and social media.</p> <p>There is a lack of programs in the state to provide “soft incentives” such as business plan writing and coaching to interface with venture capital markets.</p>
Workforce Development	Graduates with technical knowledge in engineering, agriculture, computers and technology will be necessary to fill the workforce needs of the technology industry.

NEXT STEPS IN STRATEGIC DEVELOPMENT

The development of a long-term growth strategy will require input and discussion among key partners. The following strategies have been identified as next steps in developing a strategic growth plan for the agricultural equipment and technology industry.

Focus Area	Solution
Economic Incentives	Pursue development of agricultural business zones composed of existing state business incentive programs. State economic development incentive programs like HPIP and Promoting Employment Across Kansas come with a heavy paperwork load and have been known to be cumbersome. Consider new business development incentives focusing on all agriculture sectors.
Industry Outreach	KDA will identify potential partners and establish a schedule for strategic growth plan meetings. KDA will also proactively reach out to key industry leaders regarding the development of a strategic growth plan.
Infrastructure Improvements	Assess current access rates/program usability for Kansas Department of Commerce resources (state and federal) and determine if business development infrastructure provided meets the needs for agricultural equipment and technology.
International Trade	Host an inbound buyer's mission. Evaluate key international trade shows and consider hosting a Kansas Pavilion. Consider coordinating an in-bound buyer's mission to Kansas, specifically focusing on Kansas company visits.
Research	Conduct an analysis of the potential return on investment for technology products available to help potential buyers justify the expense.
Soft Incentives	Pursue workforce development, entrepreneurial and educational programs to enhance the talent pool available to equipment manufacturers and technology companies. This will further enhance the available ecosystem of mentors, investors and incentives available.

OPPORTUNITIES TO EXPAND PRESENCE

Initial list of potential opportunities:

- Improve existing incentive programs to become more applicable to agricultural and rural businesses.
- Partner with educational institutions such as community colleges and secondary career and technical education programs to prepare a qualified future workforce.
- Lean on postsecondary career services programs to help guide students into sector job openings.
- Engage with USDA Rural Development and local-level contacts to identify solutions to housing needs in communities that experience agricultural equipment, inputs, and manufacturing sector growth.

OBJECTIVE

Based on feedback and information gathered from stakeholders at the Agricultural Growth Summit in August 2016, specific growth objectives for the Kansas agricultural equipment and technology industry will be developed.

Kansas AG SUMMIT

GROW SMARTER. GROW STRONGER. GROW KANSAS.

KANSAS STRATEGIC AGRICULTURAL GROWTH EQUIPMENT AND TECHNOLOGY — NOTES

MEETING SUMMARY

From April to July 2016, Kansas Department of Agriculture executive and agricultural marketing team members met with agricultural equipment and technology industry representatives. Individuals identified for the one-on-one conversations represented both small and large businesses and ranged in geography throughout the state. Many expressed that the state's pro-business climate, current tax structure and Midwest values make Kansas a good place to grow. Common themes of challenges impacting the growth of the equipment and technology industry in the state included transportation regulations, dealer access in the U.S. and brand purity.

Consumer

- Need to figure out a domestic attraction to get international buyers to Kansas (i.e. International Finance and Capital)
- Feels that Angel Tax Credit program is a good program

Rules & Regulations

- Challenges stem from change in law now requiring trailers over 2,000 lbs. to be titled
 - Many ag trailers were not made by manufacturers, therefore no title exists
 - Manufacturers must then work to identify a bill of materials for trailer and have the KHP inspect simply because there is no VIN on the trailer
- Navigating what they can and can't do with ag dealerships is a challenge
 - Dealerships in Kansas are not supposed to sell at public auctions with the way current law is written
- Laws that are currently in place have not evolved with the inception of online auctions
- Businesses facing challenges transporting implements due to current KDOT width regulations
 - These challenges impact the ability to provide service in an economical manner to producers
- Kansas transportation regulations are more restrictive than surrounding states, creating potential business disadvantages
 - Maybe KDA/KDOT could revisit farm equipment transport exemptions?
- Current Kansas sales tax exemptions for ag are vitally important to businesses near state lines
- Federal excise tax on trailers is an issue (sales tax + excise tax = approximately 20% tax at first point of sale)



- Concerns with DOT regulations sales
 - Staff must log hours on sales trips if carrying product
 - Concerns for smaller trucking businesses in area (having to contract with larger companies due to the expense of DOT regulations)
- Tax disparity is a challenge
 - Imported items are sometimes cheaper than what can be domestically manufactured because of tariffs (e.g., steel)
- Obtaining sales tax exemption can be incredibly difficult (HPIP program)

Transportation and Infrastructure

- Freight is a concern: paying freight both ways if a company cannot find back-haul is a problem for the smaller, local carriers

Water and Natural Resources

- Water availability and water use in agriculture is a concern

Workforce and Quality of Life

- Current state tax structure is negatively impacting public education in Kansas, negatively impacting future workforce potential
 - Current business/income tax structure may make it difficult to recruit talent to Kansas compared to other states
- Need to encourage Kansas businesses to embrace and support trade/technical education programs
- Recruiting talent to southwest Kansas and southeast Colorado is a challenge
- A \$15 minimum wage would be incredibly detrimental
- Finding employees is a challenge (responsible, hard-working employees)
- Feels that Kansas is too restrictive on employment of high school workers
- Turnover of newer employees is a challenge
- Shortage on housing is a challenge

Other

- Dealer access in the U.S. and brand purity are threats to business longevity and market access
 - Ex: “major” companies are telling dealers via contract terms what they can and cannot sell (given the large number of ag manufacturers, dealer exclusivity and product placement on certain dealer lots is a disadvantage)
 - It would be beneficial for elected officials to learn more about brand purity and negative impacts to non-major ag companies
- Intellectual property with precision agriculture is an issue — who owns the technology?
- Currently feeling the downturn in the beef industry

Potential Action Items

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