

# Strategic marketing cases: caterpillar inc. essay sample

[Economics](#), [Trade](#)



The assessment of opportunities and threats is the foundation upon which planners develop strategies. The Caterpillar case illustrates some of the problems associated with the identification of opportunities and threats, especially in a situation where previous successes are notable. Attempting to pattern long-term growth on the basis of previously valid assumptions is one of the classic dilemmas facing the strategic planner whether in consumer or organizational markets.

Why was Caterpillar able to meet Japanese competition and succeed while other major U. S. manufacturers failed? For example, what did Caterpillar do that the big three auto makers have not done?

While Caterpillar ignored the Japanese until eroding market share and huge losses forced the company to react, once started, the company made tough decisions quickly. In particular:

- \* Caterpillar cut prices to meet the prices being offered by competitors. The company sacrificed short-term profits to protect its market share.
- \* Caterpillar has always maintained its reputation as a producer of quality products.
- \* Caterpillar had a competitive advantage in its strong network of dealers and effectively capitalized on this strength.
- \* Caterpillar has taken a long-term view investing heavily in modernizing plants and cutting costs to produce equipment.

\* Caterpillar made tough decisions to close plants, eliminate jobs, and reorganize the entire corporate structure.

Alternatively, the U. S, automakers had allowed quality to slide on most of their models. These companies have been stymied in their efforts to reorganize by uncooperative unions and did not reduce prices or costs until overseas competitors had taken large amounts of market share. In addition, the shareholders at the big three automakers have sometimes had to force necessary changes.

Evaluate Caterpillar Inc.'s marketing and management strengths and weaknesses.

Caterpillar's Strengths:

- \* Product-orientation, widely recognized, technologically superior product line; immediately integrating latest advances.
- \* Most extensive dealer-service-parts network in the industry; recognized as one of the most important reasons for buying Caterpillar equipment.
- \* Market share leader for earth-moving machinery.
- \* Brand equity—the name Caterpillar has evolved as synonymous with the finest equipment available.

Caterpillar's Weaknesses:

- \* U. S.-based manufacturer with higher labor costs.

\* Caterpillar has followed a policy of promotion from within. Because of this policy, the management team has a conservative, introspective perspective toward worldwide operations. In addition, the company has extensive global operations but its senior executives are U. S. citizens. Executives appear trapped in a classic case of marketing myopia, especially as Caterpillar looks to aggressively expand in Eastern European and Asian markets.

\* Labor-Management adversarial approach to contract talks.

\* Caterpillar receives majority of its revenues in an industry which is strongly influenced by recessions. Recessions appear to becoming more severe as the world's economies become more interlinked.

Thus, while the company has successfully responded to the changing environment in which it competes, the company must address its remaining weaknesses as a matter of priority to take full advantage of new opportunities in developing countries.

In the United States, Caterpillar is competing in a mature industry. This means that for Caterpillar to increase its U. S. market share, it must take sales from competitors, rather than increase the size of the market.

a. Are there other major growth opportunities in the domestic market which have not been identified by Caterpillar? There are a couple of strategies Caterpillar could pursue to increase growth in the domestic market:

\* To stimulate demand in the U. S., Caterpillar could lobby for Congressional support for major urban renewal projects. These projects are pressing for

many cities (repair of bridges and highways) but many communities do not have funds to undertake these enormous projects. Note: At the time of this writing, President-elect Clinton had promised federal support for infrastructure renewal programs.

\* Diversification into other related areas. The company's reputation for quality and innovation provide opportunities of penetration in some related markets such as solar powered equipment.

b. If the U. S. market is close to saturation, should Caterpillar maintain the majority of its manufacturing operations in the U. S.?

\* If the company is unable to gain additional flexibility from its unionized workforce, it will need to either invest in additional automation to reduce the labor force or move more manufacturing jobs to other countries in which labor costs are lower. However, students should be asked to consider the impact on the U. S. economy and Caterpillar's labor force if jobs continue to go overseas.

\* The company may also consider increasing the percentage of overseas manufacturing if the opportunities in the U. S. market continue to stagnate. If the company's main growth opportunities are in foreign countries, it may be more cost effective to invest in local manufacturing plants in these high growth markets.

\* The risks of additional overseas production is in currency fluctuations and unstable economies in some areas. Caterpillar does not want to be

overexposed to these risks as was the case in Brazil in 1990 when the Brazilian government devalued the currency.

\* At this writing, the North America Free Trade Agreement is awaiting Congressional approval. The North America Free Trade Agreement would remove all existing trade barriers between Canada, the U. S., and Mexico. The agreement would create a common market in North America similar to the common market which currently exists in Western Europe. President-elect Clinton has voiced qualified support for this trade agreement. If the agreement is approved, Caterpillar could invest in plants in Mexico and take advantage of lower labor costs while still being able to market goods in the U. S. and Canada unrestricted by tariffs and quotas.

Identify the strengths and weaknesses of Komatsu and Caterpillar's other major competitors.

Komatsu's Strengths:

(In addition to the strengths listed below, students should be encouraged to consider whether Japanese management styles in general give Komatsu and strategic advantages in the market place.)

\* Komatsu is still a major competitive threat to Caterpillar. Komatsu has modern plants and lower labor costs than Caterpillar.

\* Komatsu has a better relationship with unions in its North American factories.

\* Komatsu has longer history of supplying equipment to the countries which used to make up the Soviet Union. When Caterpillar was prohibited by the Carter Administration from making sales to the Soviet Union, Komatsu stepped in and provided the necessary equipment.

#### Komatsu's Weaknesses:

\* Komatsu's partnership with Dresser has not been overly successful in the United States.

\* Komatsu does not have as extensive a dealer/distributor network as does Caterpillar.

\* Komatsu has lost its price advantage in the United States and was not able to overtake Caterpillar even with lower prices.

#### Other Competitors' Strengths:

\* Niche players can use a focused strategy in relevant markets and thus meet specialized application requests by some customers.

\* These niche players are also able to establish relationships by fulfilling customers' small equipment, needs. When these customers begin looking at larger pieces of equipment these relationships may result in sales for the niche players.

#### Other Competitors' Weaknesses:

\* The major weakness of all niche competitors is the limited line of equipment manufactured. Organizations which purchase multiple types of equipment will purchase from either Komatsu or Caterpillar because of their extensive range of equipment.

\* These niche players are unable to compete because of their weak distribution network. Extensive dealer network can provide superior pre and post sales support.

What are the major growth opportunities for Caterpillar, Inc. in the international market? What are the risks associated with expansion into these markets?

\* The countries of the former Soviet Union and Eastern Europe are a major growth area. The infrastructure in these countries is dilapidated and large highway and mining projects are already being considered. The major concern in all of these countries are the ethnic conflicts which are intensifying. There is political instability in almost all these countries. Caterpillar has been wary of establishing dealerships in these countries because of the political risks.

\* The financial resources of these countries are also extremely suspect. Equipment sales would need to be financed by international loan agreements or counter trade options. Opportunities and associated risks are enormous.

\* The countries of Africa provide many opportunities for Caterpillar. These opportunities must be balanced by the associated political and economic



risks of operating in them. Mining has been a major industry in many of these developing countries. However, environmental concerns could reduce opportunities.

\* The countries of Southeast Asia and China are also areas where there is growth potential for Caterpillar. Some countries, such as Thailand and Indonesia, provide opportunities much like those of Eastern Europe without the associated political instability. Cambodia with the establishment of peace and Vietnam as it becomes more of a market-oriented economy also offer opportunities. (Note: Students should be asked to consider the advantages and disadvantages which Japanese competitors have in this region. Japanese companies have an advantage because of their location and the volume of investments flowing into these markets. The Japanese face a disadvantage because of the residual distrust in this region due to World War II and associated atrocities.)

Caterpillar has been a major corporate voice in the call for the reduction of trade barriers not only in the U. S. but also worldwide. Explain the benefits to Caterpillar if trade barriers were eliminated.

\* Caterpillar's main growth opportunities exist in foreign markets. Some of these markets have erected trade barriers which make it virtually impossible for Caterpillar to compete effectively. If these barriers were reduced, Caterpillar would be able to increase sales.

\* The company would like to see U. S. tariffs reduced because of the large volume of parts and components imported from overseas plants. U. S. tariffs have increased the costs of procuring these imported parts.

\* The company would have much greater flexibility with lower tariffs and trade barriers in the global market.

Caterpillar, Inc has had severe labor difficulties during the past decade. What can the company do to establish a more cooperative environment in its U. S. factories?

\* Caterpillar has followed an adversarial approach to labor negotiations for a long time. Many employees remark on the “ us vs. them” atmosphere that exists in Caterpillar factories. Many of the changes brought about by the Plant with a Future campaign and the company reorganization appeared to alleviate some of the animosity. The strike in 1991 illustrated that the company and union have a long way to go to achieve a partnership-type of relationship. A better relationship with its factory workers could help Caterpillar achieve growth and profits in the coming decade.

\* Caterpillar should perhaps take the next step of instituting productivity bonuses and profit sharing plans for their hourly workers.

\* At this writing, Caterpillar and the UAW have not settled the contract dispute. Factory employees continue to work under the contract imposed by the company.

Looking at the equipment (Appendix B) which Caterpillar currently manufactures, are there new equipment opportunities that the company has ignored ?

Students should be encouraged to brainstorm new product ideas. Some might include:

- \* Solar powered equipment–clean energy, efficient and environmentally friendly.
- \* Specialty or niche markets–For example: Equipment for deep sea oil exploration, etc.
- \* Small equipment such as garden tillers, lawn mowers

(Students should recognize that Caterpillar has absolutely no experience or expertise in these markets. It might have to establish an entirely new distribution channel to market these products but could probably capitalize on the Cat name.)

In summary, while Caterpillar has undergone major changes in response to the changing competitive environment, the company can not return to its insular attitude towards competing in this industry. There are many challenges remaining for Caterpillar, if the company is to compete successfully in the 1990s.

References:

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