

# The success and rise of caterpillar inc



## **Introduction**

The main objective of this report is to provide an insight of one of the world's largest manufacturer of construction and mining equipment, diesel and natural gas and industrial gas turbine, Caterpillar Inc (CAT). CAT provides a product line that effectively caters the different needs of its customers and also in order to sustain in the competitive farm and construction machinery industry against other companies such as Komatsu Ltd and Deere & Company.

When CAT is at its peak, events such as the Great Crash, recession and World War II forced the company to lay off employees, pay cuts to even those of higher positions and closing of plants. With its rich history, we can see the challenges that CAT faced from time to time as well as the measure they took to overcome these obstacles and be number 1 in its industry.

By exploiting CAT's strengths and opportunities as well as evaluating its weaknesses and threats, I hope to convey on how the company overcomes its challenges and able to keep developing in the fast-growing industry.

### Caterpillar Inc

Caterpillar Inc. conducts its business across multiple areas. Not only does it design, manufacture, market and sell machinery and engines, it sells financial products and insurance to customers as well. It is the world's biggest manufacturer of earthmoving machinery, including trucks, tractors, excavators, graders, scrapers and other heavy machinery, crossing three industries; construction, mining, and forestry. Besides that Caterpillar also

produces both gas and diesel engines used in its self-manufactured machinery and other equipment.

Caterpillar had worked towards positive and sustainable change on every continent as they have been in this industry for more than 85 years in which they have helped build the world's infrastructure as well as form partnership with their network of Caterpillar dealers worldwide. Ranking 44th in the 2009 Fortune 500, the company has a wide-ranging consumer-market spread over 200 countries. It also produces more than 300 products in 23 countries, with assets amounting to more than USD \$67 billion. Being an industry leader, Caterpillar's global presence extends to every continent and includes over 480 facility locations – almost half of which are outside the U. S.

Company History

### **Milestones: Overview of Caterpillar Inc.**

1890. Benjamin Holt and Daniel Best experimented with various forms of steam tractors for use in farming. They did so separately, with separate companies.

1904. Holt's first steam track-type tractor.

1906. Holt's first gas track-type tractor.

1915. Holt "Caterpillar®" track-type tractors are used by the Allies in World War I.

1925. The Holt Manufacturing Company and the C. L. Best Tractor Co. merge to form Caterpillar Tractor Co.

1931. The first Diesel Sixty Tractor rolled off the assembly line in East Peoria, Illinois, with a new efficient source of power for track-type tractors.

1940. The Caterpillar product line now included motor graders, blade graders, elevating graders, terracers and electrical generating sets.

1942. Caterpillar track-type tractors, motor graders, generators sets and a special engine for the M4 tank are used by the United States in its war effort.

1950. Caterpillar Tractor Co. Ltd. in Great Britain is established, the first of many overseas operations created to help manage foreign exchange shortages, tariffs, import controls and better serve customers around the world.

1953. In 1931, the company created a separate engine sales group to market diesel engines to other equipment manufacturers. This group was replaced in 1953 with a separate sales and marketing division to better serve the needs of a broad range of engine customers. Engine sales now account for approximately one-third of the company's total sales and revenues.

1963. Caterpillar and Mitsubishi Heavy Industries Ltd. form one of the first joint ventures in Japan to include partial U. S. ownership. Caterpillar Mitsubishi Ltd. started production in 1965, has been renamed Shin Caterpillar Mitsubishi Ltd., and is now the No. 2 maker of construction and mining equipment in Japan.

1981-83. The worldwide recession took its toll on Caterpillar, costing the company the equivalent of \$1 million a day and forcing it to dramatically reduce employment.

1983. Caterpillar Leasing Company is expanded to offer equipment financing options to its customers worldwide and is renamed Caterpillar Financial Services Corporation.

1985-present. The product line continued to diversify to meet a variety of customer needs. More than 300 products are now offered, more than double the figure in 1981.

1986. The Caterpillar Tractor Co. changes its name to Caterpillar Inc. - a more accurate reflection of the enterprise's growing diversity.

1987. A \$1.8 billion plant modernization program was launched to streamline the manufacturing process.

1990. The company decentralized its structure, reorganizing into business units responsible for return on assets and customer satisfaction.

1997. The company continued to expand, acquiring the U. K.-based Perkins Engines. With the addition of Germany's MaK Motoren the previous year, Caterpillar becomes the world leader in diesel engine manufacturing.

1998. The world's largest off-highway truck - the 797 - makes its debut at the Cat Proving Ground in Arizona.

1999. Caterpillar unveils new line of compact construction equipment at CONEXPO, world's largest construction show, in response to changing customer needs for smaller, more versatile construction equipment.

2000. Caterpillar celebrates its 75th anniversary.

2001. Caterpillar is the first company to globally launch 6 Sigma and deliver first-year benefits in excess of implementation costs.

2003. Caterpillar becomes the first engine manufacturer to offer a complete line of 2004 model year clean diesel engines fully compliant and certified by the U. S. Environmental Protection Agency (EPA). Caterpillar's breakthrough emissions control technology, known as ACERT®, is designed to comply with EPA standards without sacrificing performance, reliability or fuel efficiency.

2005. Demonstrating a pledge to sustainable development, Caterpillar responded to a number of tragedies around the world, including the Asian Tsunami disaster, hurricanes along the U. S. Gulf Coast and earthquakes in South Asia. In the face of each of these challenges, employees, dealers and corporate leaders alike joined together to build a promise of hope and growth for all those affected by donating machinery, money and resources for relief and recovery efforts.

2006. Benjamin Holt, one of Caterpillar Inc.'s founding fathers and designer of the first track-type tractor was recognized for his ingenuity and entrepreneurial spirit with an induction into the National Inventors Hall of Fame.

2006. Caterpillar Inc. subsidiary Caterpillar Logistics Services, Inc. (Cat Logistics) opens a new parts distribution centre in the Lingang Industrial Area in Shanghai.

2006. Caterpillar launched a revised and updated Worldwide Code of Conduct and Enterprise Strategy. Serving new markets and new customers

in new ways, Caterpillar welcomed the opportunity to experience unchartered growth across all business ventures.

These are the milestones that were created by Caterpillar's website which will be explained in further details in the later part of the report. The purpose is to have an overview of the series of events that occurred in chronological order. Not only do they focus on machinery but also on environment and doing charity for countries hit by natural disasters.

### **The Inspiration – Combine**

In 1859, farmers at that era had to bring over their grain to special cleaning station before it could be suitable for the market. Daniel Best who had been working in this industry for a while wanted to solve this problem by building a machine that could clean the grain as it was being harvested which he did by 1871.

Charles Holt on the other hand established C. H. Holt & Co which imported hardwood lumberjack. Together with his brother Benjamin, who was in charge of development of products and their manufacture while Charles responsible for the business side of enterprise, they managed C. H. Holt & Co.

The Holt Brothers produced their first Link Belt Combined Harvester in 1886, which used flexible chains rather than gears to transmit power from the ground wheels. This innovation greatly reduced machine down-time. Daniel Best had produced this a year earlier.

## **Ingenious minds – Steam power tractors**

Large-scale agriculture requires animal power but the cost of housing and feeding these animals is expensive so much so that the farmers have to cut on their earnings. In 1892, both Horts and Daniel Best solved this problem by building a steam powered tractor which could haul freight, plow fields as well as harvest grains.

## **Ingenuity – Crawlers**

A land that is boggy and impassable when wet was another problem farmers faced. This milestone occurred in 1906 where the first commercially triumphant caterpillar-style tractor or crawler was produced. Through this successful invention, planters are now able to reclaim thousands of acres of land previously thought useless. The name Caterpillar came about when an onlooker commented that it moved like a caterpillar.

## **World War I**

World War I which broke out in 1914 interfered with the long prosperity that the company have experienced for many decades. It did not bring any negative effects to Holt Tractor. Instead, Holt Tractor gained international recognition as more than 100 000 Holt vehicles served the Allied force. One of the vehicles was the tank which was invented 2 years after the war started.

## **Merger**

Caterpillar Tractor Company (CAT) was formed in 1925, from the merger of Holt Manufacturing and C. L. Best Gas Tractor Company Only the most



successful sites are picked by Caterpillar. They began to expand quickly by opening dealerships outside U. S.

Caterpillar Tractor Company began to grow and a large service force was employed.

## **Great Crash**

The great depression is somehow related to the Great Crash which happened in 1929. There was a huge drop in sales. In the beginning at 1930, its sales were \$45 million, which then dropped to \$13 million and \$1. 6 million the year after, which was the first full-year lost. Certain changes have to be made such as factories only went on a four-day workweek, a few factories closed down and salaries including those of executives were cut. Because of Soviet purchases, the company remained profitable and rebounded in the late 1930s.

## **World War II**

Similar events occurred like in World War I where the company help by manufacturing vehicles to serve the Allied Force. This time round, with the discovery of diesel engine, they were able to improvise on the gasoline airplane engine and tanks.

Besides their manufacturing line, Caterpillars task was to also repaired damaged roads, construct new ones, bulldozing tank traps and build pillboxes (gun emplacements).

## **Enormous Post-war Growth**

The end of the war was the first step for Caterpillar tractor to have a key impact on the world industry and develop into a truly international firm as it launched its expansion programme in 1949 so that it could get products to its customers fast enough. Together with the massive rebuilding campaign, Caterpillar experienced enormous growth rather than recession.

Caterpillar opened up subsidiaries all around the world, Great Britain, Brazil, Australia, etc.

## **Rivalry**

Caterpillar's biggest rivalry at that time which had gained market share was Komatsu, a leading Japanese competitor. It has done so by offering low cost high quality option in varied product lines while Caterpillar was busy raising prices in their existing product line at an average of 10% per year. Caterpillar executives ignored the threat and continued to support its historical management values which resulted in declining profits and a loss of \$1 billion in three years. To overcome this, a new CEO, Schafer, began to focus on new initiatives. He introduced new product line and launched a new manufacturing strategy. Not only that. He changed the corporate culture, creating employee involvement programs.

## **Leading manufacturer**

In 1998, with the U. S. market flourishing, an average sales growth of 13% for the previous 5 years, and 50% of sales being international, the company refocused on global diversification.

Insight into the business

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## **Mission**

Caterpillar will be the leader in providing the best value in machines, engines and support services for customers dedicated to building the world's infrastructure and developing and transporting its resources. We provide the best value to customers.

Caterpillar people will increase shareholder value by aggressively pursuing growth and profit opportunities that leverage our engineering, manufacturing, distribution, information management and financial services expertise. We grow profitably.

Caterpillar will provide its worldwide workforce with an environment that stimulates diversity, innovation, teamwork, continuous learning and improvement and rewards individual performance. We develop and reward people.

Caterpillar is dedicated to improving the quality of life while sustaining the quality of our earth. We encourage social responsibility.

## **Vision**

Be the global leader in customer value.

## **Reflection on Mission**

As I have shared about Caterpillar's history, it involves many inventions and improvements to the inventions plus post-war reconstruction of roads and buildings. Caterpillar also provide best value to customers that's why they became world's largest manufacturer of earthmoving machinery, including

trucks, tractors, excavators, graders, scrapers and other heavy machinery used in the construction, mining, and forestry industries.

The company also pursuit growth and profit by extending its borders overseas, becoming internationally recognized.

Caterpillar has made efforts to reduce pollution by improving its engines to reduce harmful gas emission. They even keep records and placed goal on how much emission they made and the trend of harmful gas emission is decreasing means they play a part in sustaining the quality of our earth.

With this I can conclude that most of the company's mission is met which shows that Caterpillar strive towards its mission to make the company successful, workers happy and the environment clean.

## **SWOT Analysis**

### **Strength**

Ingenuity I feel is the biggest strength that Caterpillar has. Even before Caterpillar was formed, Holts and Best constantly challenge themselves to solve problems and come out with new ideas such as the crawler and combine. Even as the years proceed, they keep improving in their products and come up with newer ones.

Caterpillar also provides quality products and services. This builds loyalty amongst its customer therefore creates legacy of customer satisfaction for decades, causing it to have strong relationship with numerous markets,

Caterpillar's diversified geographical spread allows it to be recognised internationally and tap into the different markets. Besides location, its <https://assignbuster.com/the-success-and-rise-of-caterpillar-inc/>

diversified industry - heavy equipments, engines and financial services - caters to a wide range of customer.

Having an excellent mission statement and vision, from my analysis, has made the Company successful as they abide by them and each mission caters to different principle which altogether forms a strong company.

## **Weakness**

The prices of their products are slightly higher than average. This causes some customer to go for another alternative company which could provide the same product or service at a cheaper price.

Caterpillar had problems with debt due to cost structure and the resultant was retrenchment and pay freeze. One point, due to the debt they had with a banker named Thomas A. Baxter, the board of directors were forced to accept his as a business manager in order to accommodate for the debt.

## **Opportunities**

Caterpillar expands its business in developing countries such as India and China. The production cost is lower in these countries so market sales overseas offer potential.

World war and post-war growth offered opportunity for Caterpillar to expand via recognition through repairing damaged roads, building new ones, bulldozing tank traps and constructing pillboxes.

## **Threats**

Economic recession such as the Great Crash pose threat to Caterpillar as it experience lower sales and high lost which could force the company to retrench worker or close plants.

A rivalry such as the Komatsu Ltd was a threat to Caterpillar at one point of time as they offered low cost high quality option for customers.

## **Recommendations**

As Caterpillar is the leading manufacturer of heavy equipment and top in its industry right now, i don't think there is much changes that it should take.

The company should stick on to its mission and vision closely so as to keep a balance in the people and company. Also they should have learnt how to control their debt so as to not repeat the same mistakes all over. Caterpillar should also try to produce more products that can cater to even more customers plus it has to be environmentally friendly.

## **Conclusion**

Caterpillar Inc has been the world's largest manufacturer of earthmoving machinery, including trucks, tractors, excavators, graders, scrapers and other heavy machinery used in the construction, mining, and forestry industries. And it's success can only be credited to the swift thinking and innovative minds that runs the company. Caterpillar Inc runs its business strictly and according to its value and principles and this actually made Caterpillar Inc ethical.