

The comeback of caterpillar



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When the US construction industry grinded into an economic downturn, demand for Caterpillar products decreased. The major decrease in the US industry is the result of the completion of the interstates, giant dams, and other construction buildings. Hydraulic excavators are very big market. They accounted for 45 percent of the sales. They are the fast selling equipment that can create competition between the companies. Developing Nations played an important role in the competition, because the need for construction equipments increased to shape the new dams and especially to make roads.

The growth rates of developing nations were faster than the global demand so developing nations becomes the new market areas for competition. One of the biggest competitions takes place in the replacement parts sector. It is an essential part of the industry. Replacement parts made up together over a quarter of the total revenues of the total construction equipment industry. Also the sales of replacement parts are more profitable than the whole machines. Construction Companies competed to provide the best parts for the best needs. It is vital for companies to achieve an economies of scale to survive in the competition. To achieve economics of scale, companies try to capture a large market share in order to eliminate the low volume of global sales.

Distribution and service network is the essential part of the industry because the inability to operate the equipment is very expensive. To gain competitive advantage by selling parts, companies used a worldwide network of dealerships to sell their machines and provide support. Intense competition among the companies drove them to form alliances to share risks, to access

new markets, use technology and share production. Oil prices are very important because decline in oil prices can depress the market and could affect the competition directly.

Currency Fluctuations affects the industry as a whole. Rise in the value of dollar makes other countries buying power decrease, which results as an import to the country. The imports will be much cheaper than the domestic products, therefore industry will shift to import from other countries. Strong currency is the prime factor for companies such as Caterpillar to have trouble while competing for developing countries. Cyclical Nature of the construction equipment could make an industry wide downturn for both domestic and international markets.

What were the sources of Caterpillar's spectacular success up to the early 1980s?

The major reason of the spectacular success of Caterpillar up to the early 1980's was the post-war years. Those were the times to reconstruct the countries that were destroyed in the wars. As a result Caterpillar products exploded during those times to rebuild Europe, build the US interstate highway system, erect the giant dams of the third world, and layout the major airports. Also Caterpillar Company followed some strategies during those times to differentiate itself from its competitors by producing reliable, high quality products and providing a fast delivery of replacement parts. As a result Caterpillar became the leader of the heavy construction equipment industry.

On the other and Caterpillar's distribution and relationship with their dealers contributed to the company's world wide success. The vision of Caterpillar for their deal network was very unique. Those dealers were self sustaining businesses who invest their own capital. They generally earn 100 percent of their revenues by selling and supporting Cat equipment. By doing those Caterpillar dealers remained in the hands of the same family and helped the company to make huge success.

What were the strategies introduced by Schaefer, Fites, and Barton to reduce the impact of cyclical downturns on Caterpillar's results?

George Schaefer

- Global Outsourcing; Caterpillar sought to purchase parts and components from low cost suppliers, who maintained high quality standards. Under their new policy "shopping around the world," they moved to outsource 80 percent of its parts and components.
- With the help of its branding program Caterpillar sold outsourced machines under its own name. Branding program helped the company to keep production costs down while taking a superior marketing organization advantage.
- As the demand for heavy equipment decreased Caterpillar needed to reevaluate its product mix and create a broader product line. Caterpillar started to sale light construction equipment. "Between 1984 and 1987, accordingly, Caterpillar doubled its product line from 150 to 300 models of equipment introducing many small machines that ranged from farm tractors to backhoe loaders." They

also started to market light weight vehicles to small scale owner operations and new contractors.

- Schaefer promoted opencommunicationstrategy, which resulted the free flow of ideas between officers, managers, and production workers.
- Also Schaefer launched the Employee Satisfaction Process (ESP), which helped the company to organize in work teams, met weekly with management and offered suggestions that helped to solve many critical aspects of the manufacturing process. The program resulted in productivity gains, quality improvements, and increased employee satisfaction.
- Schaefer also launched a plant modernization program with just in time inventory method. This led the company to have computerized tools, and flexible manufacturing systems. They also changed the traditional manufacturing process system called " batch". Unlike in batch systems assembly lines provided complete model production and helped the company to achieve high level of work in progress.
- Correcting the assembly mistakes Caterpillar reconfigured the layout of its manufacturing system into flexible work cells. Workers used computerized machine tools to perform several manufacturing steps.
- As general Schaefer reemerged the company as a lean, technological, flexible, and competitive global company. He increased the company shares up to 7 percent, while increased the revenues by 66 percent,

Donald Fites

- Fites turned the company into a utilizing integrated approach based, Japanese style company. He also wanted to bring Caterpillar's labor

relations to the Japanese model, because Japanese unions are company based organizations.

- He also looked deeply into the customer needs, because global pricing decisions center didn't have a broad knowledge about the local market conditions around the world. He delegated district offices authority to set prices which helped him to push responsibility down the chain of command to the lowest possible level.
- He applied the same principle to Caterpillar's entire structure, developing a company wide reorganization plan under Schaefer's direction. Caterpillar's old organization structure was only suitable in US, but as the company expanded globally the limitations of such structure become apparent.
- Fites broke the company into 17 semi-autonomous divisions in order to operate necessarily and to gain the company flexibility. He then required each division to have 15 percent rate of return, on the other hand he threatened to penalize any division that fell behind. This helped the company to increase their profits and give them maximum flexibility.
- In addition to all those, Fites developed a new plan, which based all of its incentive compensation schemes on return on assets. As traditionally Caterpillar managers were paid in proportion to the size of the budget they controlled, or the number of employees they supervised. Also all funding, and R&D activities that controlled by each division helped the company to be more customer driven than at any other period in past.

- New organization plan affected the company's distribution network as well. With the help of new divisions, dealers seeking help could contact them easily. The importance of this structure was the interaction between Caterpillar's managers and dealers increased. It also enabled the company and dealers to have closer relationships to each other. According to Fites Caterpillar's distribution system was the company's single greatest advantage over its competitors.
- Another strategy for Caterpillar was to protect its dealers against failure. Caterpillar assisted individual dealers who were subject to intense price competition. To help those dealers Caterpillar reduced prices even sometimes reduced the dealer's costs, and sometimes they launched a promotion campaign. All those helped the company to sell more vehicles and create sustainability when other dealers went out of business during the recession.
- Not only they helped their dealers but also they introduced "Partners in Quality" program to have quality discussions, which links personnel at Caterpillar plants and dealerships. This helped the company to have strong personal business ties with the dealers.
- Fites invested to upgrade the Caterpillar's worldwide computer network. It helped Caterpillar to link together all factories, suppliers, sealers, distribution channels and customers. With the help of this system Caterpillar guaranteed 48 hours delivery of parts anywhere in the world. Caterpillar provided the most comprehensive and fastest part delivery system in the industry. Also electronic alert system developed under Fites. This system designed to monitor machines remotely identify parts, which needed to be replaced, and replace

them before they failed. This helped the company to repair the machines before they broke down. They saved repair costs, it also provided to Caterpillar reduce their inventory costs.

- Fites expanded the products of the company. Caterpillar entered a total of 38 mergers and joint venture agreements. Caterpillar sold engines separately and accounted for 35 percent of Caterpillar's revenues. This is a very big market and Caterpillar engines powered one third of the big trucks in the United States.
- Fites wanted to reject the collective bargaining agreement, because the labor costs are very high and they were cutting the company's global competitiveness. The labor prices were very high and Caterpillar was heavily depended on the export of domestically manufactured products. After he rejected the agreement union went to strike. But Fites forecasted the strike and he built up enough inventory to supply customers for about six months.
- Fites was a very successful CEO; he trained managers and office workers to operate factory machinery, when the strike happened again he was prepared again. His ability to see the answer before the question earned company lots of money.
- At last he got what he wanted. He signed a contract with the union allowing Caterpillar to introduce two tier wage system and pay new employees 70 percent of the starting union scale. The contract also provided more flexible schedule format allowing management to keep employees on the job longer than eight hours. The contract also enabled company to hire temporary employees without the approval of the union.

- Fites wanted to have good relationship with the union because in case of an economic downturn and a recession he wanted to have a smooth workforce.

Glen Barton

- He believed that the downturn of the US market could be eliminated by an upturn in the international market.
- He increased sales of Caterpillars equipment to the developing nations such as Asia, Latin America, and Eastern Europe. By doing this he created new markets for the company.
- He made non truck engines in case of a decline in the truck engines. Such diversification enabled the company to produce engines even the truck engine part offset.
- Under the leadership of Barton, Caterpillar started to sell mobile power modules.
- Caterpillar started to rent business equipment. Barton made efforts to make dealers diversify into rentals. As successful as it is the rental distribution segment of the fastest growing segment.
- He also used joint ventures to expand into new markets, and he was very successful. He formed joint ventures with Daimler Chrysler and started to produce medium duty engines. He also started to manufacture fuel systems. Those fuel systems were designed to increase efficiency of diesel engines and thereby reduce diesel emissions.