DEERE & COMPANY - CASE REPORT

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a. Problem Statement:

Deere & Company is among the manufacturing leaders of farm and industrial equipment dominating the small tractor market. After the mid 1960’s it had a market share of 50% to 60% followed by other competitors such as International Harvester, Case, and Caterpillar in North America for the small tractor market. However, the scenario was different for the large tractor market. Caterpillar was the leader of that market followed by International Harvester, Case, Fiat-Allis, Komatsu, and Terex.

Deere & Company faced many issues as they were entering the existing market of larger units used for heavy construction and mining work which was dominated by the Caterpillar

Tractor Company. Caterpillar Tractor Company dominated with the highest share of 45% worldwide for the crawler tractor market. “Cat” or Caterpillar became the generic name for large carwlers because of their popularity. Deere developed a bulldozer tractor JD750 & crawler loader JD755 to compete with the larger tractor market.

Deere & Company is facing a challenging problem of pricing the bulldozer tractor JD750. Pricing the smaller tractors was based on competitor pricing and past pricing of the Deere products. However, pricing the larger tractors was a complex process and involved several possible product strategies. Investment in large tractors such as JD750 was huge, and the initial concept and the pricing would usually involve many sources.

b. Issues:

i. Consumer and Demand Analysis

The consumer market is best divided into two categories, small market which includes machines having below 100 horsepower and large market which includes machines having above 100 horsepower. The Productive machines often required to work for 10 to 24 hours per day are referred to as large crawlers and were used in the heavy construction like construction of highways, dams, airports, and mining industries etc. While crawlers which were under less stress were called small crawlers and were used for utility purposes as their utilization was more uncertain.

A variety of customers including landscapers, sanitary landfills, industrial plants, paving contractors, mines, foresters, sugar cane plantations general contractors, home builders, underground contractors, etc. use Crawler loaders and bulldozers. Based on their industrial and hole-digging applications, bulldozers were oriented to rural areas, and loaders were oriented to urban areas.

The large units were purchased by large contractors (who specialized in huge projects such as highways, dams, and airports) and by mines. Such sophisticated purchasers kept detailed records concerning productivity (tons moved per hour or dollar) and reliability. Large contractors also purchased small machines. These utility machines, however, were not used quite as intensively as the larger units.

Small & minor contractors were the major purchasers of small units as their priority was reliability. Deere management estimated that the domestic sales from 1977 to 1980 for D850 and D-6 machines would be 3,500 per year and that of JD750 and D-5-sized machines would be 5,500 per year.

ii. Competitor Analysis

Manufacturers have fierce competition from all over the world such as International Harvester, Fiat-Allis, Komatsu, Case, Caterpillar, and Terex. Caterpillar Tractor Company dominated the larger equipment market, having about 45% of worldwide crawler market share. However, Deere's major success had been in light crawler tractors. Another company named Case had the major share (50%) of the North American light-wheeled industrial tractor market due to agricultural ancestry. Caterpillar had worldwide construction and materials handling sales of $4.5 billion in 1975.

Deere had 50%-60% of the small tractor market as a result of good engineering, high reliability and dealer strength with small contractors. International Harvester(second in line) stood as a competitor with perhaps 10% of the market followed by Case and Caterpillar.

The situation is considerably different when it comes to the large tractor market. Caterpillar led the market with a share of 50% to 60% since part operation being viewed as excellent and superior to all competitors. International Harvester was second. Some of the other competitors included Fiat-Allis (a joint venture of Fiat and Allis Chalmers), Komatsu,Case and the Terex division of General Motors.

Terex was viewed as a highly innovative competitor with little impact in the market, whereas, Komatsu copied Caterpillar designs, and in doing so brought the designs up to the existing state of the art—the main idea was to offer an equivalent product at a lower price. It was known to be field testing a prototype bulldozer with a hydrostatic transmission.

iii. Company SWOT Analysis

STRENGTHS:

- They have a large number of dealers & outlets to handle their demands
- Deere and Co are very professional and have a great reputation
- It’s an excellently engineered and innovative company
- They are reliable and have a huge distribution channel

WEAKNESSES:

- Deere and Co do not export and also do not include exclusive parts
- Patents cause infringement from their competition
- They are a smaller company as compared to their competition

OPPORTUNITIES:

- They can create a greater number of diverse products
- The small machines market (below 100HP) is the fastest growing market

THREATS:

- The market they are entering, doesn't have an increasing growth rate as there are no huge projects for big machineries.
- The competition in this field is already quite fierce

c. Alternatives:

i. Economic evaluation

Deere & Company's margins have been better than the average of the market margins. Moreover, the manufacturing sector has been improving and has seen a growth improvement over the years. All this goes to show that Deere & Company has been catching up with Caterpillar. To support this point, the following figure shows the change in Gross Margin and how Deere & Company shows better gross margin than Caterpillar by 1976.

	Deere & Co.		Caterpillar	
	1975	1976	1975	1976
Net Sales (millions)	$2,955	$3,134	$4,964	$2,466
Cost of Goods (millions)	$2,273	$2,316	$3,859	$1,875
Gross Margin (millions)	$682	$818	$1,105	$591

We can see the Gross Margin comparison for the years 1975 and 1976

ii. Qualitative evaluation

Deere & Company has majorly concentrated highly on the business side of their growth but now have also focused on the Complex Parts as they have been doing a good job by listening to their customers and improving as per the suggestion regarding quality of the product. With help of specialized attachments for forestry and many more applications, they have successfully achieved great word of mouth and customer satisfaction. However, they should concentrate on investing in data collection and business intelligence to accurately fulfill customer requirements.

iii. Marketing implications

With the introduction of JD750 and JD755, the productivity would increase by 10-15% with the help of the dual path hydrostatic drive system. With such improvement in productivity, such advantages should be marketed in comparison with the D5 by CAT. The company should concentrate more on the marketing of the accessories which can be controlled and monopolised as it's not very competitive which will eventually help in increasing the market share.

d. Recommendations:

The key aspects to John Deere’s success are their merchandise and innovations with improvements in agriculture. They should use their advantages in other fields like marine and powertrain projects. With consumers moving slowly towards electric alternatives and eco-friendly solutions, in the long run, electric powertrains can eventually save capital for John. Moreover, due to low electrification in the developing and under-developed nations, Deere and Company can try to enter and replace existing power cars with diesel-electric alternatives.

SWOT Model Recommendation

It has been observed that despite awareness about the opportunities in the future for agriculture and construction, it has been recording a comparatively underwhelming sales figures in the agricultural sector. The company should concentrate on the agricultural sector in third world countries due to local demand for that sector. Similarly, they should concentrate on migration and urbanization as a trending factor for the developed as well as the developing nations. They should take advantage of the geographical area and their respective demand. Secondly, they should continue to invest more on the accelerated innovation process with research and development to evaluate new services as well as improve the performance. With high productivity, they should concentrate on lowering the cost of the current product.

They should quantify the improvement in the productivity provided by JD750 as compared to the CAT D5. This should be used in the marketing campaign with comparisons available for the consumer which can eventually improve the sales as well as the word of mouth for the JD products.

Recommended Strategy

- In particular, the implementation of the worldwide Sales strategy should be bolstered while keeping the dividend as it is. This would not only ease each financial gain and grow investor’s square measure but also create the major quantity of chances with the support to back it up as sales square measure is crucial for machinery trade industries. The dividend can be raised once the sales and estimated earnings are overblown.
- While advancing with the worldwide strategy it should also be focused on building relationships.

To analyze the partnership within new regions and network with native business, Deere’s existence, goal, and ethics should be cataloged as it would also be advantageous for native communities. In addition, a brand-new domestic strategy should be build that will pinpoint dedication towards U.S economy

- The selling off subsidiary business investment should be delayed until it is necessary to support the company’s mission and objectives. This provides an upper hand by escaping temporal problems and delivering accounting clearly. Single handedly take possession of the firms with cutting-edge technologies that aligns with Deere’s prospect for strong future investment.
- A need for separation of Corporate executive and Chairman positions. Although it is approved by various companies, as it would handle the conflict of interest regularly in the company. This would result in safeguarding square measure and create additional chance for unfeasible business proceedings and company frauds.

Strategic Alternatives:

- Instead of getting into international developing markets, re-focus on North Yankee sales. One of the advantages is that the risk related to getting into new markets is reduced and growth will be targeted more clearly in familiar regions. This indicates offshoring wouldn't be the maximum amount of a problem. A disadvantage is that industrialists may not go for expansion, it must even maintain market share and its competitors can have a major advantage within the future. Moreover, industrialists have developed compelling property initiatives that other global regions may gain advantage from.

- Specialize in increasing earnings from sales growth and lower the dividend payout. One of the advantages is that this may offer transparency into actual worth, ultimately generating a lot of sales. If an investor's point of view is considered, this shows a strategic arrangement and provides confidence in every growth chance. A disadvantage is that investors that look for financial gain won't appreciate the dividend cut and will prompt a sell-off.
- Firms with innovative technology should be acquired globally as well as domestically resulting in either cut back expenditures on analysis and development or which will offer the power for larger steps in R&D. Advantage is that acquisition is often accounted as an asset and the technology has already been developed. A disadvantage is that the innovation isn't Deere’s and also the non-inheritable company has the potential to become a liability.

e. Plan of action:

- Deere & Company should develop their company's core values and mission amongst themselves and then branch out to other developments to grow.
- They should continue their dominance in the smaller tractor market and deliver quality products like they have been doing.
- Later they can move to the accessories market and focus on improving and delivering current products and services to their customers to achieve higher loyalty so when new products are introduced in the market, it will be easier to sell. This in turn would create more customer retention and loyalty, generate more profit, and attract potential new customers.