# Capstone Group Y-B
# Deere & Company Case Study

**Elly Ogle**
**James Allen**
**Max Jenkins**
**Tim Brown**

## Executive Summary

John Deere started in 1837 with basic plows for farmers. About 100 years later in 1923 the Model D tractor was launched and was successful enough to dominate market share for 30 years. Profits were steadily increasing until the Great Depression in 1932. Due to Deere & Company's shift in strategy, they were able to maintain their bond with farmers through the tough financial time. After 1963 John Deere was the largest producer of equipment and tractors for farmers and industrial use. This upward trend of expanding and increasing profits was impressive until the fiscal year of 2014. In 2014, the demand from farmers declined because of falling crop prices, reduced agricultural tax incentives in the U.S., and declining overseas sales. Most companies providing equipment for these industries saw similar trends in this fiscal year.

The situation the Company faces, regarding main competition, is nailed down to 3 companies: CNH Industrial N.V., AGCO Corp., and Caterpillar. To lay out where the companies stand; in 2013 Deere & Company had 35.4% of the market share for agricultural and forestry equipment, CNH Industrial N.V., their main competitor, had 11.7% market share, then AGCO coming in at about 4% market share (Appendix II Exhibits 5-7). Caterpillar was a "competitor"

focused in another industry with a $55 Billion Net revenue in 2013 to put into perspective compared to Deere & Company's $36 Billion. Here are a few key factors of where they need to compete and where they do not.

A lot of companies make the mistake of trying to compete where they do not need to, Deere & Company needs to make sure to steer clear of those mistakes. One thought they could have is to try and go into the construction equipment industry to try and steal market share from Caterpillar. In some eyes this could be a great idea, in others, this would not be. They have an attractive growth rate and net revenue(Appendix II Exhibits 7). They grew from $40 Billion to $64 Billion. In 2014 when the downturn for all the agricultural industry went down, they stayed within $55 Billion like their 2013. If you reach into the finer details, you notice the decline from 2012 to 2013 from $65 Billion to $55 Billion due to a slowing in global construction. Beyond the numbers, having a brand image and relationship with your niche market is vital. This would only confuse the niche market and disrupt the views of who they are and who they are going after. After review, we think this would be a bad idea for Deere & Company to pursue.

However, where they can compete is where their opportunities lay, explained in the SWOT analysis(Appendix I). CNH has 6000 dealers in 190 countries. International expansion is a very open opportunity. Deere & Company has already been involved in international growth considering since 1963 they've been the "world's largest producer of farm and industrial tractor equipment." This is where CNH is making a run at the market. Another opportunity that uses their strengths is the need for more forestry equipment. With their standing compared to their competitors in this market, they should jump on this need and benefit.

We are suggesting that John Deere wants to start an alliance with a medium size agricultural company that is already established in each emerging region. Also, Deere may want to start an alliance with a medium sized construction company in the United States.

**Analysis and Rationale**

**Commitment**

According to the textbook, a strategy explains the importance of the company in the market by pointing out the desirable value to potential and existing customers. John Deere is known to be loyal to those who are "linked to the land." This company started in 1837 and has grown because of their dedication to the evolution and growth of their farming community. Through adversity in the industry, Deere & Company has made changes to stay on the top and remain successful. During the Great Depression, Deere & Company had to build brand loyalty and decided to allow farmers to keep their equipment instead of confiscating it due to lack of payments collected. Because of this executive decision, Deere & Company was able to build brand loyalty and create a trustworthy image across the nation.

Also, their core values go back to the beginning and are carried out wherever they expand. Integrity, quality, commitment, and innovation are the four values that are evident in their mission to include everyone to make the world a better place. Deere & Company takes pride in how effective their message has spread and how it has lasted through the life of their company. They have used these values to build strong relationships with retailers, customers, distributors, and the general public. Deere & Company has strong brand loyalty and the trust of its customers and

One of Deere & Company's Strengths is the quality of their products. Most of their top line products have useful lives of over fifteen years and even past that with customers choosing to continue buying the replacement parts that Deere and company also offers. This can mean that some of their products work for double the time that the company plans for them to.

**Opportunities**

Deere & Company need to look internationally for expansion of your company. Deere & Company needs to carry the same commitment internationally in five other countries as they domestically for them to be successful. According to Mcgraw Hill "Essentials of Strategic Management" due to the lackluster 5% growth domestically, they saw international expansion as the only viable option for company growth and rise in the standard of living around the world. According to Mcgraw Hill "Essentials of Strategic Management", one of the reasons for the attractable rate is the rise in the standard of living around the world.  Expanding internationally is a way to reach more of these customers and take advantage of the rise in the standard of living international and stagnated growth domestically. In order to take advantage of that growth internationally, Deere & Company will need to start entering into emerging markets. Some emerging markets region they want to enter is Asia, Africa, and Central American region. Per Mcgraw Hill "Essentials of Strategic Management", the biggest rise in the standard of living markets in the next 50 years will be in Asia, Africa, and Central American region. These regions have some tricky markets to enter like Russia, China, and India but this will open up the door to try and dominate other markets with growing agricultural that is expected.  Per Pestle Analysis (Appendix III), this is a way for Deere & Company to help with the social aspect of the company. After reviewing the different strategies in the Mcgraw Hill “Essentials of Strategic Management” text book and all factors from above an alliance make the best sense for Deere & Company. Exporting is way too expense, Licensing and franchising expose Deere & Company secrets to competitors. An alliance is less exposure but still can get a sense of the market. Deere & Company’s alliance should be with a medium size agricultural companies that are already established in each region. Deere & Company will provide Integrity, quality, commitment and innovation are the four values to the alliance. This will make the world a better place. We think they will be successful in other regions because of the quality they offer in their products.

Another reason for the attractable rate of growth for Deere & Company in the next 50 years will be in the agriculture market. Per Mcgraw Hill “Essentials of Strategic Management”, the next 50 years, the market should see growing around 50%. So I can see increase sales of new equipment in the agricultural department to meet the demands of this growth. Also, I think Deere & Company will continue to see parts department grow as old equipment ages the farmers buy parts or service their old equipment. Deere & Company’s customers tend to buy their parts from Deere & Company and no other third parties. This will cause higher margins for Deere & Company as parts have higher margins than equipment.

Urbanization is another area of growth in the next 50 years for Deere & Company as developing countries population move into urban areas and away from rural areas. According to Mcgraw Hill "Essentials of Strategic Management, the construction industry will be growing in the next fifty years as more people will be moving from rural to urban areas. Deere & Company may want to start an alliance with a medium sized construction company. They would help the alliance with brand recognition, help with the supply chain and distributors. There could be some side effects of failure in this alliance.. This may hurt the brand image of Deere & Company and confuse their customer on who their niche market is. They have a strong standing in their current market and this should prove to be a successful opportunity for them to grow as a company.

As far as a segment of equipment that they can focus on would be forestry equipment. There is predicted to be a rising need. They are the leader in the industry with 35% in agricultural and forestry equipment as mentioned earlier. With the industry dominance, they have maintained, with a focus on product innovation and quality they should be able to capitalize on this to stay ahead of CNH company.

Deere & Company has a lot of opportunities in the next 50 years to grow the business and entering new business industry and regions. This will cause their business revenue, profits, margins, and market share to grow. After doing a Porter Five-Factor Analysis(Appendix IV) you can see that Deere & Company is a strong competitive force in the global market for their brand.

**Conditional Threats**

Now Deere & Company has multiple conditions that are threats to their revenues, profits, and margins every year. I want to talk about the ones that affect them the most. They are federal interest rates, US dollar, crop market, and conglomerates. See Pestle table in Appendix for more conditions.

Federal interest rates for farming went up 2014 compare to 2013 and the price of corn decrease from 2013 to 2014 per Mcgraw Hill "Essentials of Strategic Management". Both scenarios cause Deere & Company to have less revenue than the previous year. Higher interest rates cause farmers not to buy higher end equipment for that year which has higher margins or postpone the purchase. Some will just repair their old equipment.

Conglomerates are a huge threat to farming industry and Deere & Company. Conglomerates are using the latest technology and equipment. This hurts Deere & Company because with all new technologies like GIS. This technology causes the farms to need less equipment per farm. Also, with newer technology conglomerate farms can yield more acre than the smaller farms. This drives the price of the crop down and causes less revenue for smaller farmers. This causes fewer customers for Deere & Company.

The US dollar affects the farm because some of their crops are export to other countries. When the US dollar is strong, export revenue is less for the farmers. This also affects Deere & Company and it is shown in 2013, the US dollar was weak, and Deere & Company had a record-setting year in revenue, but the US Dollar strengthen in 2014 which cause Deere & Company to have lower revenues. Also, as they enter foreign markets when the US Dollars strengthens Deere & Company profits and margin will decrease as foreign money is not worth as much as the previous

All the above are threats to the Deere & Company and they will have to constantly watch the US dollar, laws Congress passes, real estate, and farming interest rates as this all affects their revenues, profits, and margins.

**Competition**

Deere & Company have seen some competition for their market share in last few years but have to manage to keep a majority of the market share in agricultural and forestry equipment compare to its competitors. Product quality, innovation, customer service, branding, and performance were areas where everyone in the business industry are trying to win the customer over. Deere & Company is the best.

One thing that may be of concern for Deere & Company is that company mergers seem to be a giant threat to their industry. Considering their main competitor is CNH Industrial N.V. and they were formed in a merger in 2013 by Fiat Industrial and CNH Global. It is a strategy that combines forces and builds on one another's strengths. For Deere & Company to imitate them would be the wrong strategic move. The fact that Deer & Company still has 35% market share of agricultural and forestry equipment, versus the new CNH Industrial's 11%. There is not a need to make a big move to fight for market share. Like mentioned earlier they need to pick where they need to compete.

Per our Five-Factor Analysis(Appendix IV), one company that is in consider their competitive rivalries is Caterpillar. Looking at their net revenues may be intimidating for Deere & Company until you investigate the finer details. This is a company that is in the field of construction equipment more than agricultural and forestry equipment. The agricultural industry took a big hit, so did the global need for construction equipment dropping them from $65 Billion to $55Billion in one year. A drastic attempt to join another industry for expansion would be an ill-advised move but an alliance would be more of realistic strategy.

Fighting for market share in the industry, Deere & Company needs to only challenge competitors where they need to. Right now, companies are doing mergers to try and take market share away from the leader, Deere & Company. Their biggest rival is Caterpillar but they still do not have a large persistent in agricultural and forestry equipment industry. After looking at the Five Factor Analysis(Appendix IV), there are companies that can be considered competition but Deere & Company should have zero concerns about due to the difference in the industry.

**Conclusion**

As shown by the Five-Factor Analysis, SWOT, Pestle Analysis, threats to the Deere & Company, and new opportunities, Deere & Company is a strong company and leading in their industry. They continue to be resilient against fluctuating market conditions and have maintained revenue growth year after year. The SWOT analysis shows that they  still have room for growth and have several upcoming opportunities to make strides. The few threats will only be temporary as long as John Deere continues to adapt and evolve. Serving their customers with such great value and focusing on those linked to the land has allowed them to be an industry leader for many years. As John Deere expands, this company will only become better and more successful. A few setbacks will not take away from the future of John Deere, and with the above suggestions the road to pull away and gain more market share is within sight.

# Appendix

# Appendix I

SWOT ANALYSIS for Deere & Company

Primary factors

**S** **Strengths**

- Consistent revenue growth
- Loyalty amongst customers
- High quality products
- A Leader in its Industry
- Strong relationships with dealers and retailers

**W** **Weaknesses**

- Declining global agricultural sales
- Declining demand for agricultural equipment
- USD is increasing in value which weakens the farming industry
- Products have a long useful life which makes sales few and far between

**O** **Opportunities**

- Increased need for forestry equipment
- International expansion
- Global population group: Increased agricultural needs
- Technological innovation

**T** **Threats**

- Increased activity of other top industry competitors
- Fluctuating cash conversion rates
- Rivals are gaining increased market share
- Decline in net income in 2015
- Falling crop prices

# Appendix II

EXHIBIT 1

**Deere & Company Income Statements, 2012–2014 (in thousands, except per share amounts)**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Net Sales and Revenues | | | |
| Net sales | $32,960.6 | $34,997.9 | $33,500.9 |
| Finance and interest income | 2,282.1 | 2,115.1 | 1,981.3 |
| Other income | 824.2 | 682.4 | 674.9 |
| Total | 36,066.9 | 37,795.4 | 36,157.1 |
| Costs and Expenses | | | |
| Cost of sales | 24,775.8 | 25,667.3 | 25,007.8 |
| Research and development expenses | 1,452.0 | 1,477.3 | 1,433.6 |
| Selling, administrative and general expenses | 3,284.4 | 3,605.5 | 3,417.0 |
| Interest expense | 664.0 | 741.3 | 782.8 |
| Other operating expenses | 1,093.3 | 820.6 | 781.5 |
| Total | 31,269.5 | 32,312.0 | 31,422.7 |
| Income of Consolidated Group Before Income Taxes | 4,797.4 | 5,483.4 | 4,734.4 |
| Provision for income taxes | 1,626.5 | 1,945.9 | 1,659.4 |
| Income of Consolidated Group | 3,170.9 | 3,537.5 | 3,075.0 |
| Equity in income (loss) of unconsolidated affiliates | (7.6) | .1 | (3.4) |
| Net Income | 3,163.3 | 3,537.6 | 3,071.6 |
| Less: Net income attributable to noncontrolling interests | 1.6 | .3 | 6.9 |
| Net Income Attributable to Deere & Company | $ 3,161.7 | $ 3,537.3 | $ 3,064.7 |
| Per Share Data | | | |
| Basic | $ 8.71 | $ 9.18 | $ 7.72 |
| Diluted | $ 8.63 | $ 9.09 | $ 7.63 |
| Dividends declared | $ 2.22 | $ 1.99 | $ 1.79 |
| Average Shares Outstanding | | | |
| Basic | 363.0 | 385.3 | 397.1 |
| Diluted | 366.1 | 389.2 | 401.5 |

Source: Deere & Company 2014 Annual Report.

EXHIBIT 2

## Deere & Company Balance Sheets, Fiscal 2011–Fiscal 2013 (in thousands)

| | 2014 | 2013 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $3,787.0 | $3,504.0 |
| Marketable securities | 1,215.1 | 1,624.8 |
| Receivables from unconsolidated affiliates | 30.2 | 31.2 |
| Trade accounts and notes receivable—net | 3,277.6 | 3,758.2 |
| Financing receivables—net | 27,422.2 | 25,632.7 |
| Financing receivables securitized—net | 4,602.3 | 4,153.1 |
| Other receivables | 1,500.3 | 1,464.0 |
| Equipment on operating leases—net | 4,015.5 | 3,152.2 |
| Inventories | 4,209.7 | 4,934.7 |
| Property and equipment—net | 5,577.8 | 5,466.9 |
| Investments in unconsolidated affiliates | 303.2 | 221.4 |
| Goodwill | 791.2 | 844.8 |
| Other intangible assets—net | 68.8 | 77.1 |
| Retirement benefits | 262.0 | 551.1 |
| Deferred income taxes | 2,776.6 | 2,325.4 |
| Other assets | 1,496.9 | 1,274.7 |
| Assets held for sale | – | 505.0 |
| Total assets | $61,336.4 | $59,521.3 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Short-term borrowings | $8,019.2 | $8,788.9 |
| Short-term securitization borrowings | 4,558.5 | 4,109.1 |
| Payables to unconsolidated affiliates | 101.0 | 106.9 |
| Accounts payable and accrued expenses | 8,554.1 | 8,973.6 |
| Deferred income taxes | 160.9 | 160.3 |
| Long-term borrowings | 24,380.7 | 21,577.7 |
| Retirement benefits and other liabilities | 6,496.5 | 5,416.7 |
| Liabilities held for sale | | 120.4 |
| Total liabilities | 52,270.9 | 49,253.6 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, $1 par value (authorized, 1,200,000,000 shares; issued, 536,431,204 shares in 2014 and 2013), at paid-in amount | 3,675.4 | 3,524.2 |
| Common stock in treasury, 190,926,805 shares in 2014 and 162,628,440 shares in 2013, at cost | (12,834.2) | (10,210.9) |
| Retained earnings | 22,004.4 | 19,645.6 |
| Accumulated other comprehensive income (loss) | (3,783.0) | (2,693.1) |
| Total Deere & Company stockholders' equity | 9,062.6 | 10,265.8 |
| Noncontrolling interests | 2.9 | 1.9 |
| Total stockholders' equity | 9,065.5 | 10,267.7 |
| Total Liabilities and Stockholders' Equity | $61,336.4 | $59,521.3 |

Source: Deere & Company 2014 Annual Report.

EXHIBIT 5

**Financial Summary for CNH Industrial N.V., 2011–2014 (in millions of euros), except per share amounts)**

| | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Revenues: | | | | |
| Net sales | €31,196 | €32,632 | €31,529 | €32,224 |
| Finance and interest income | 1,359 | 1,204 | 1,272 | 1,256 |
| Total revenues | 32,555 | 33,836 | 32,801 | 33,480 |
| Net income | 708 | 828 | 876 | 639 |
| Earnings per share | €0.52 | €0.54 | €0.62 | €0.42 |
| Total assets | €51,913 | €53,843 | €48,965 | €48,003 |
| Equity | 4,961 | 4,955 | 4,825 | 4,857 |

Source: CNH Industrial 2014 Annual Report.

EXHIBIT 6

**Financial Summary for AGCO Corporation, 2010–2014 (in millions)**

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Net revenues | $9,723.7 | $10,786.9 | $9,962.2 | $8,773.2 | $6,896.6 |
| Gross profit | 2,066.3 | 2,390.6 | 2,123.2 | 1,776.1 | 1,258.0 |
| Income from operations | 646.5 | 900.7 | 693.2 | 610.3 | 324.2 |
| Net income | 404.2 | 592.3 | 516.4 | 585.3 | 220.0 |
| Total assets | 7,395.9 | 8,438.8 | 7,721.8 | 7,257.2 | 5,436.9 |
| Total equity | 3,496.9 | 4,044.8 | 3,481.5 | 3,031.2 | 2,259.2 |

Source: AGCO Corporation 2014 annual report.

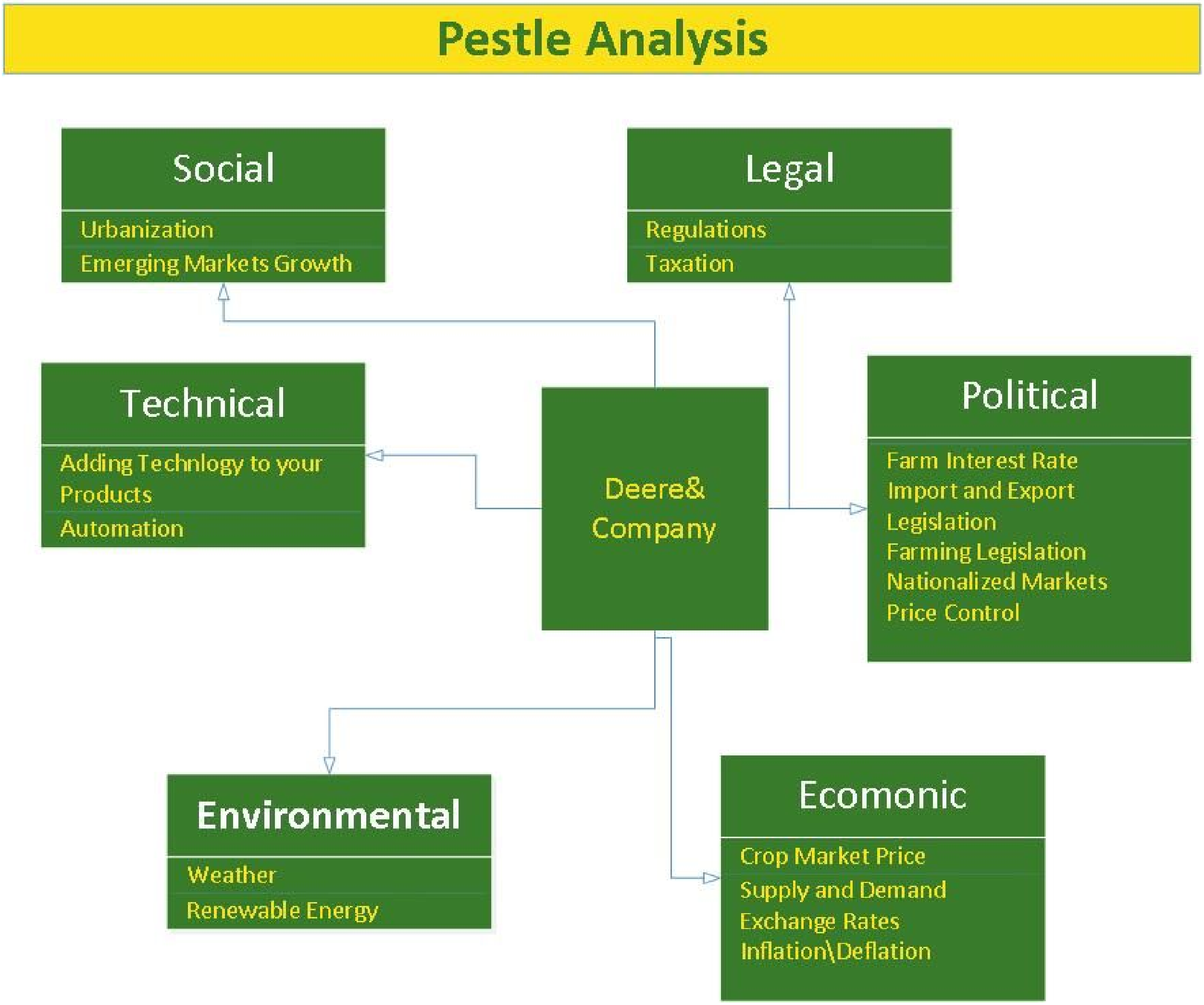
EXHIBIT 7

**Financial Summary for Caterpillar, Inc., 2010–2014 (in millions)**

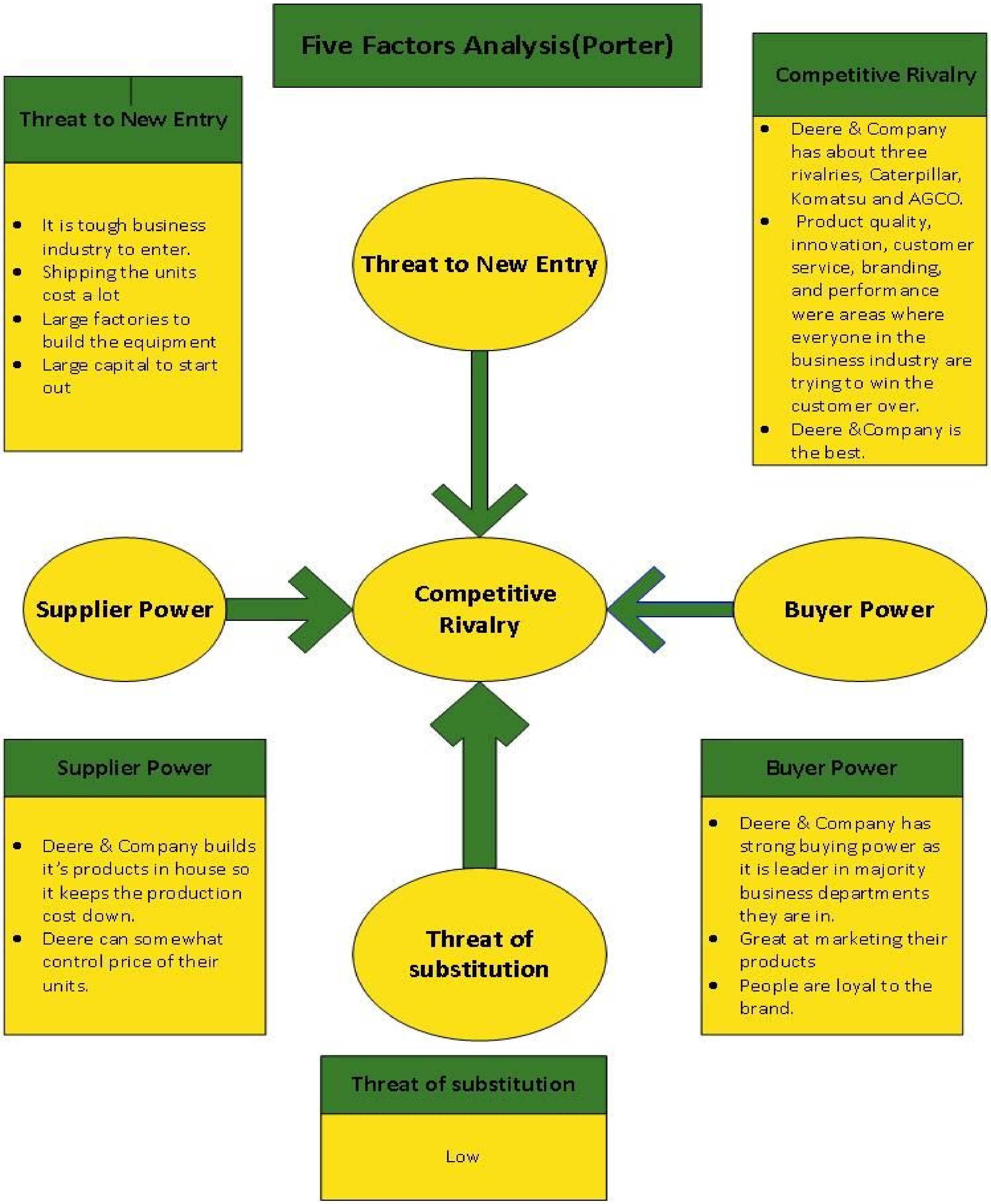
| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Net revenues | $55,184 | $55,656 | $65,875 | $60,138 | $42,588 |
| Operating profit | 5,328 | 5,628 | 8,573 | 7,153 | 3,963 |
| Net income | 3,695 | 3,789 | 5,681 | 4,928 | 2,700 |
| Total assets | 84,681 | 84,896 | 88,970 | 91,218 | 63,728 |

Source: Caterpillar, Inc., 2014 annual report.

## Appendix III



## Appendix IV



Five Factors Analysis(Porter)
Threat to New Entry
It is tough business industry to enter.
Shipping the units cost a lot
Large factories to build the equipment
Large capital to start out
Competitive Rivalry
Deere & Company has about three rivalries, Caterpillar, Komatsu and AGCO.
Product quality, innovation, customer service, branding, and performance were areas where everyone in the business industry are trying to win the customer over.
Deere &Company is the best.
Threat to New Entry
Supplier Power
Competitive Rivalry
Buyer Power
Supplier Power
Deere & Company builds it's products in house so it keeps the production cost down.
Deere can somewhat control price of their units.
Threat of substitution
Buyer Power
Deere & Company has strong buying power as it is leader in majority business departments they are in.
Great at marketing their products
People are loyal to the brand.
Threat of substitution
Low

Works Cited


https://www.deere.com/en_INT/our_company/about_us/strategy/strategy.page
http://connect.mheducation.com/connect (Essentials of strategic management)