

**Case: Deere & Co.**

Deere & Company (<http://www.deere.com>) (also known as John Deere, after its founder) is a world-leading manufacturer, distributor, and financier of equipment for agriculture, construction, forestry, public works and lawn and turf care. The company also provides credit and managed health care services. In August 1999, for the third straight year, Deere was named one of *Industry Week's* 100 Best-Managed Companies.

Deere's objective has consistently been to be the low-cost producer in the markets it serves. However, it seeks to do so while maintaining an image of quality and customer focus. Its slogan is "Achieving genuine value for customers worldwide." Because of the company's close ties to the agricultural industry, corporate performance in both sales and profits was highly variable during much of the 1980's and 1990's due to cycles of low prices and oversupplies of many agricultural products. During that period, the company made various adjustments in its product mix and manufacturing processes to enable it to better compete and survive in the global environment.

The excerpts below come from various Deere annual reports.

1984

In spite of the industry environment of low demand, the challenge is to do what we do better. Provide more value per dollar of purchase price. To accomplish this will require cost-effectiveness in all facets of our business, which includes being more flexible and more aggressive in adopting the most modern design and manufacturing technologies....Product design is being systematically reviewed to provide improved performance and quality at a lower cost....New manufacturing technologies such as robot welding have enabled Deere employees to become more efficient while producing parts of higher and more consistent quality. Underlying most changes in the forestry equipment line was a special emphasis on increased reliability.

1987

John Deere is determined to be the lowest-cost producer in our industries and to sustain a competitive advantage on a global basis. However, we all must perpetuate the company's reputation for providing the best quality and value to

our customers. While we're making structural changes in our operations we must continue to adhere to these business principles....

John Deere leadership in the agricultural equipment business is based on a line of products that has earned a reputation for excellent quality and reliability, on the skills and services we have to support the product line, and on our strong network of independent dealers....In our continuing effort to improve the quality and performance of John Deere agricultural equipment, we have traditionally invested a higher percent of sales in product R&D than any of our major competitors....The industrial equipment improvement reflects our strong product line and dedicated organization and our employees' determination to reduce costs, improve quality, and deliver the best value to the customer....The total value of John Deere equipment is quality, reliability, dealer support, finance plans, resale value, and the company that stands behind it all.

1989

We must continue to ensure that John Deere products offer the customer the best value in all respects – in quality, reliability, features, resale price, and especially in value added by an independent network of well-placed, full-servicing dealers people can rely on.

1995

Deere's focus on continuous improvement takes a wide variety of forms, but is based on the simple concept that any product or process can be improved. We have placed great emphasis on enhancing the team-based culture of the company, in which salaried and hourly employees work cooperatively toward the common goal of creating ongoing, meaningful gains in productivity....

A key component of this operating philosophy is the company's growing utilization of team-based compensation systems that reward continuous improvements in productivity....Our experience with initial pilot applications of these pay plans indicated that sustainable annual productivity improvements could be achieved in many operations. ...These plans have already generated an average productivity gain that exceeds six percent....The financial benefits of Deere's

emphasis on continuous improvement are significant, and may be measured in a variety of ways. For example, looking at some important financial metrics for 1995, and comparing them with 1990, a year in which the production volume was similar, a clear trend of improvement emerges:

- Return-on-assets performance improved to 8.5% from 6.1%.
- The debt-to-capitalization ratio declined to 26.3% from 35.5%.
- Tonnage produced per employee increased 25%.
- Net sales and revenues generated per employee were 50% higher.
- Dealer receivables as a percent of settlements, our proxy for retail sales, declined to 36% from 46%.
- Inventories measured at standard cost, as a percent of the cost of goods sold, dropped to 26% from 33%.

1996

As we move ahead in the pursuit of genuine value, we continue to follow twin strategies of continuous improvement - embodying innovation, efficiency, effective business processes and a passion for excellence - and profitable growth, which is being accomplished through the global pursuit of new markets and products....Nothing stands as a better illustration of Deere's commitment to continuous improvement than our long record of investment in capital programs and research and development. In 1996, Deere invested a record amount of some \$650 million in these areas, including \$370 million for R&D alone....Continuous improvement initiatives are setting the stage for our other strategy - that of profitable growth....Our company's pursuit of genuine value as our primary strategic initiative provides a strong point of focus. In reaching to create value for our many constituencies, we have embarked on a series of exciting journeys that are fundamentally remaking our enterprise. For example, a strong company-wide total quality program continues to expand and intensify, yielding improved customer responsiveness, shortened cycle times, and reductions in costs and asset levels. Similarly, our effort to pursue profitable growth is taking us into dynamic new global markets of tremendous potential.

1999

Genuine value captures the qualities we have been known for all along such as quality and integrity. But it also codifies the John Deere way of doing things and, thus, gives us a special identity. The basis of genuine value is that stakeholder value and stockholder value are interconnected. To this end, we believe that our strategies of continuous improvement, profitable growth and business innovation will lead to superior returns for our owners through the benefits provided to our customers, employees and neighbors....We're continuing to invest heavily in new products and production facilities, have completed some very attractive acquisitions, and are progressing with an ambitious set of team-based initiatives that are improving quality and refining key business processes across the enterprise.

Continuous Improvement. Highlighting our pursuit of genuine value through continuous improvement is an aggressive series of process-based initiatives targeting six-sigma levels of performance and customer satisfaction. During the year, some 900 projects involving the efforts of several thousand employees, were completed or in progress. Their goal: Streamlining business processes, large and small, and pursuing operational excellence throughout the company....In support of the initiative stressing customer focus, our operating divisions are structuring their activities around the core processes of customer acquisition, order fulfillment, product development and customer support.

Profitable Growth. ...our growth efforts are centered around international expansion in agricultural equipment, a focus on large customers in construction equipment, an unprecedented period of investment in commercial and consumer equipment, as well as a stepped-up emphasis on agribusiness and overseas markets in credit. Acquisitions and joint ventures are playing an increasingly important role in our growth plans as well....

Business Innovation. ...The company spent more than \$700 million on new products and facilities designed to provide customers with greater productivity, value and convenience....Innovation is also expected to spur the performance of the newly created John Deere Special Technologies Group. Its purpose includes developing advanced software, electronics, and communications solutions for John Deere customers, as well as creating new revenue streams by serving outside companies and customer groups....

While important, quality products and a venerable brand are only a start. We must remain passionate about enhancing quality, improving cycle times and embracing technology in order to keep our journey to preeminence on a steady course. ... Nothing is likely to mean more to our future than how effectively we adapt information technology and, specifically, use the Internet as a springboard to promote our brand and sell our products....For all their importance, products, processes and technology mean little without the right people behind them...Our emphasis on building relationships has earned a loyal customer following, as well as a dedicated team of employees and dealers. Inasmuch as genuine value is truly a reciprocal process, their contributions and continued allegiance are crucial to the attainment of consistent world-class performance. In our view, those with an eye for enduring value will realize substantial benefit as Deere stakeholders and share in the excitement of raising genuine value to new heights.

### **Assignment**

On the basis of this information, prepare a brief report discussing Deere & Company's evolution of quality (relate your discussion to historical trends and issues discussed throughout the extant lecture). How has their perspective of quality changed? How has it helped them to stay competitive in a tough business environment over this time period? Do you think that their technology-focused efforts will help them to remain competitive in the future? You may also wish to study their recent annual reports to see how the company has progressed into the 21st Century.