Business901

Podcast Transcription

Implementing Lean Marketing Systems

Teamwork: The Caterpillar Way

Guest was Craig Bouchard

Related Podcast:

How to Breakthrough the 20 Billion Dollar Ceiling

Transcription of Podcast

Craig Bouchard: Well, there's a remarkable - almost cultish appreciation of the company CAT by a large group of people around the world. I don't know if it's probably half a million employees reasonably with retirees etc., so these are people who breathe yellow and they really care about this company. One of the remarkable things I found writing the book before we went down the path to write a book, Jim and I, we really loved the story. I went to Illinois State University, and he was my teacher there. I was only 30 minutes away from CAT so we all grew up around that, but we really never thought about the commercial aspects of the book. We don't care that much - the writing of the book; we don't do it to make money. But, what I really started to understand, at least halfway through the project, was that we had inadvertently picked a really incredible topic commercially because so many people care about CAT.

Joseph Dager: Welcome everyone! This is Joe Dager, the host of the Business901 podcast. With me, today is Craig Bouchard - he is the founder of Shale-Inland, a leading supplier of industrial products and CEO of Signature Group Holdings. Craig is the recent co-author of the book 'The Caterpillar Way' which explains how Caterpillar, one of the world' leading brands make an extraordinary comeback and its incredible performance it has sustained in recent years. Craig, I'd like to welcome you and could you start out by explaining your connection with Caterpillar and how the book came about?

Craig: Hi Joe, thanks very much, I'd love to do that. The way the book came about was kind of simple. I was sitting at an Illinois State University Advisory Board function talking to my mentor and friend, Jim Koch and another fellow who was in our class at Illinois State

- just 30 minutes away from the Caterpillar headquarters in Peoria. I went on to the world of finance; he became a Caterpillar trainee and over a few years; he goaded me into saying, "Come on, let's write a book about Caterpillar." We then went to our friend at Caterpillar to go talk with their media relations group, and we drafted out a proposal to enter the company, study the period from the early 1980s when they lost a $1,000,000 a day for three consecutive years until today where they have this global dominant position. Let us talk to anybody, tell the story and they did not have the right to edit our comments. We negotiated a little bit around that, particularly with respect to their union relations, sign the contract. McGraw Hill loved the idea, published the book and we got started. That was probably about a year and a half ago.

Joe: Well you covered a lot of ground in a year and a half I have to admit?

Craig: We work fast. It's just a hobby; we can't waste time.

Joe: It's interesting to see that you're focusing on Caterpillar - why not Apple or Amazon or some fun company? Why one that made yellow iron?

Craig: Here's the reason for that - we didn't start out to write about CAT, we started out thinking, 'Let's write a book about the greatest company'. So we put together a list of what we thought was the top-managed, most famous, kind of best-in-breed global kind of corporations. That included Microsoft and Apple. It included General Electric, Wal-Mart, J.P Morgan, Goldman Sachs, McDonalds and several other companies just like that. We created a model called the Bouchard-Koch Model in the book, in which we lifted the twenty-five things that we felt was most important in the management to the company. Then we looked at each of those companies' like we've just mentioned and gave them a

grade of each category. There are actually twenty-five factors and we evaluated with. We had a very simple methodology and found which one that checked the most boxes, so that turned out to be CAT. With that in hand, we went to CAT and asked if we could write a book. And in the end, Doug Oberhelman, their great CEO - which I think over the head in the media department say, "Let them in and let them write the book". So we had free access to the company for a year.

Joe: What struck me about the book more than anything else is that it was not a Jeff Bezos, a Jack Welch, a Steve Jobs, or a Bill Gates. It was a credit to the entire CAT organization. Was that true? Is that how CAT is?

Craig Bouchard: I really confess. It's incredibly true. I've been the CEO for a couple of companies. I'm the CEO of Signature Group, a public company right now, in a great company. But in the case of Caterpillar, I've never seen such a large group of people so thoroughly dedicated to increasing their revenues and decreasing their expenses as a team - which is kind of simple - but what I'm trying to say is that it's rare in real experience. That company is really - everybody is on the same page, and that's a management feat of course that they've accomplished that.

Joe: Yes it's a huge management feat but not to have that person out there waving the flag just amazes me.

Craig: When I look at CAT is and the most remarkable thing going back to the 80's. They had basically six incredibly large complicated decisions to change the company during this past thirty years. Six times, they turned the entire place upside-down strategically requiring such a flexibility of their management and their workforce - it's just really

remarkable and each one of those decisions could have turned into a disaster and each one like them have turned into a disaster for other companies, and Caterpillar went six-for-six. Basically with four different Chief Executive Officers through that time period responsible for those six decisions. Not only did they go six-for-six in decisions, they managed to get it right who was the right person to implement and come up with an implementation for each of them. This kind of a record is almost unheard of in terms of these types of gigantic decisions were implemented.

Joe: Did the CEOs get picked based on the needed initiative, or because they were good at, or did it happen because they were good at that?

Craig: We talked about that a little bit in the book. How much of it is luck and how much of it is that the board of directors, they had at the time, picked the right guy for the right job in the challenges that existed at that time. Between Donald Fites, Glen Barton, James Owen, Doug Oberhelman and George Schaefer before, these five guys are very different people with different skill sets. In whatever way that it was accomplished with the board of directors at Caterpillar and its succession planning is a very determined and thorough process in the company. To put in place the right person at the right time in those challenges during those thirty years and my conclusion because they got it right five times in a row - it is not luck.

Joe: I think there's a lot to be said about that. There's a whole chapter on Lean and Six Sigma in the book and of course my listeners are familiar with this. So is that an important part of the Caterpillar story?

Craig: It's a huge part. It's one of the six major decisions, and it's probably the biggest one

in its definite scope. So in the year 2000, Glen Barton had taken over as Chief Executive Officer and him on the board, and he called and described in the book - fascinating interviews backing all these material and some consulting with - so he called all the senior executives around the world into the auditorium in Peoria. They did some planning all day long; they had all kinds of things going on. Barton was scheduled to appear at the end of the day, late in the day. Everybody's going, "Where the heck is Barton?” At that time, everybody at Caterpillar wore suits - they were sitting there in ties and the suits whole day - imagine that being said. Towards the end of the afternoon, everybody started to check their cellphones for text and messages - back in 2000 that was a new innovation basically - and a gong sounds in the auditorium and they all jumped up.

Here comes Barton in a black-belt karate uniform with four people behind him and people were astounded. Barton basically said, "Look, we're here today for a very important reason. We're going to change the company, and you're all going to help with it." He then explained that something that was true, there is$20 billion dollar revenue sphering that exists out there, so it's like a legendary elephant graveyard of library. A lot of companies have hit that level of revenue, people that have successfully reached $20 billion; it's very hard to scale and grow beyond that because you're do big that you start to screw up a lot of things. Barton had realized that there's one key cost that's rising dramatically in the equipment out in the field, and that was a big red flag for him and he was smart enough to get it. He said, "We've have a quality problem and secondly, we stagnated. Our revenue has been consistent about $20 billion dollars for three year, we've hit the ceiling and we got to fix that. I'm here today to give you your objectives as a company." He got a lot of attention because of this, of course. He said, "We're going to grow $20 billion of revenue to $30 billion of revenue in the next five years." That caught everybody's attention. And then he

said, "While you're doing it, we're going take a billion dollars of expense out of our cost phase. So we are going to grow at that amount, and we're going to take a 10% of a billion dollars out of our operating expense. And finally, you're going to be accretive - the cost of this program that you're going to enter into, which is Six Sigma, we're going to pay in revenue-enhancement in cost reduction" and everybody is wondering "What the hell is accretive". He said, "Here's what it means; we're going to revenue increase this year and cost reduction this year; we're going to pay for this program. We're paying for it ourselves in the first year."

So Barton set out that very aggressive schedule, he's walking around the room with hundreds of people in the auditorium going up to the ceiling, and he could see faces going "Ngggnh, I have heard about this Six Sigma, I heard about this; G.E. and 3M did it recently. Sounds good, those other guys can do it." You could see it in their faces. And so Barton said, "I can see it. The train is leaving the station; you're all going to be on this train or you're going elsewhere. And right now we're going to start and have every person in this room walk down the stage, look him in the eye, shake my hand and promise him to fully support the Six Sigma program. Every single person and that's how they started. They took 750 of the top employees of the company out of their jobs in the next 30 days and put them in black-belt training and if that wasn't enough, think about that investment - 750 of your best people out of their jobs, in their black-belt training full-time. Then they took 3,500 people and put them into green-belt training to support these 750 guys. In the next two years, then they did what they called 'The Tsunami Change' inside CAT. G.E and 3M are two great examples of big companies who're successful in Six Sigma. They rolled it out division by division across the globe - it took them years investing in Six Sigma. And he said, "We're all going to do this year." Nobody believed that. And he had his 750 people

right away, and he had 3,500 will support them. By the time the program was two years in, he had 30,000 employees involved in Six Sigma program. Never before and never again has anyone committed that many resources in that period of time. They made their $10 billion in revenue one year early, four years later. They got their billion dollar cost reduction and they shattered the $20 billion dollar ivory elephant graveyard ceiling, went on to $40 billion, went on to $50 billion, and they went on to $60 billion in recent years, and in the next couple of years it'll go over $70 billion. Glen Barton gets a lot of credit, and that's the commitment it took the tsunami of change that made it all happened otherwise people may have lost interest and that all happened in that first year.

Joe: I don't think a lot of people realize the trouble that Caterpillar was in the early 1980s. I would think that time period is correct. Were they losing like a million dollars a day or something?

Craig: A million dollars a day for three years and in that third year which was 1984 where they lost a $150 million. That was the year that Schaefer said, "We're turning the place around. We're turning to start, in fact, to compete with the Japanese, Komatsu etc.” They entered the first of the six big decisions which was the plant for the future. Schaefer committed $1.8 billion dollars to upgrade 37 of their main plants and make them the most modern plants in the world. They did that after losing a million dollars a day. Imagine that decision at that time, which is staggering - nobody could believe it - Wall St, the New York Times, everybody called it their last stab at avoiding bankruptcy to make such a big change. It was a survival decision by the estimate of most people at that time. As it turned out, it set the stage for successful Six Sigma, Lean set of programs for the company over the coming years.

Joe: In this world of multiple supply channels, everybody expounds on going direct and on the web, having the brick and mortar. Everybody's got all these multiple supply channels. But I always think; CAT has always understood the value of their dealer network which is one of the most powerful things in the world. Did they waiver on that when they back in trouble, did they look at jumping ship from that network?

Craig: I don't perceive that. I think there has been a constant commitment - it has been strengthened and strengthened and strengthened overtime. The dealer network is the absolute crown jewel of the company. There isn't anything like it in the world when you really analyze how companies sell. Caterpillar has almost no direct customers; they have a few here and there from some acquisitions. So they built this powerful group of dealers who interface with customers to provide service to the customer, and who are exclusive to Caterpillar. By doing that, they've kept many billion dollars of expense out of the company, and they have kept satisfied customers, and they nourish their dealers so that they're healthy enough that they can keep their supply chain in place for the customers. It's a remarkable asset that no other company has, and I call it their No. 1 competitive advantage in their market.

Joe: Yes, I think it resounds with the fact that it's CAT's service. Even CAT dealers are looked at as an extension of the company, like they are the same company.

Craig: It also, by the way, helps them as they go around the world because there's a little thing called the Foreign Corrupt Practices, so big companies like Wal-Mart have had all sorts of problems. Wal-Mart Mexico problem actually was a gigantic problem. Others have faced the same issues; the moral fabric of the community outside the United States is not the

same as inside the United States and Caterpillar faces none of that risk because they don't have any customers outside of the United States, because the dealers have all the customers. It's a unique, sort of unrealized small component of the whole story.

Joe: The other part which I thought was interesting - Caterpillar gets it so right which everybody else fails at - its acquisitions - how do they do that and what separates their decisions from others?

Craig: It's a mixed story; you can't - nobody's perfect on this one because CAT made a bad one last year in the ERA 28, Chinese acquisition that they made where there were some reported fraud involved with the inventory numbers, etc. CAT took a big write down several months ago on that investment. So that one they blew, but they have made an awful lot of great ones. So then you get into how you do your due diligence, your analysis and your strategies, collection of classic behaviors. CAT starts off by saying, "Look, we're only buying companies that go to the core of what we do and extend our products into areas that we have customers, but we do not have enough products for them or a complementary product. Bucyrus would be a big good example of that one. They paid a lot of money for Bucyrus to come into the mining industry in a way that they've got a dominant market share. So it fit their strategy beautifully, extended their products and extended their geographic reach all at the same time. It's been the core to what they do. So the time of strategy with the MNA Processes - first step and they do it brilliantly. Then you get into how you do your due diligence, analyze the acquisition, make sure what you see is what you get. They used to do that in a slightly different way than they have in the last couple of years. Their finance department used to do much of their due diligence. That went into the line, more in recent years, line managers were involved in the end. That played a role in

not making a good decision in that one acquisition, in China. Their line managers didn't do as well as the old finance department might have done. But that being said, their batting percentages are very high. It'd be something like, "When was the last time somebody batted 400 in the Major Leagues in baseball where they're sort of the average like that in their acquisition. They do a good chunk of them extremely well.

Joe: No doubt, because I was looking through the list in the book. Your book, needless to say, has the financial slant toward - you're kind of geared that way. But there's so much more to it than numbers because I enjoyed the book tremendously just reading the chapters and things in it, but what would you hope someone would get from numbers in the book?

Craig: Okay so, when I first started thinking about this, Jim and I spent a lot of time just sitting, talking about what's important out there. Here we sit , this is how we thought at the beginning of the whole exercise - here we sit; Today, in the United States, there are 25 million people unemployed or underemployed. Maybe more if you measured more accurately, so it's a very large number of people having come through the Great Recession. Those people who are out there, a tremendous number of them at a very terrifying late stage of life saying, "Oh, my God, my career is gone! I don't have a job; I got to do something different." Right? We all know people like this. And so often these people will say, "Oh, my gosh, there's no jobs for me out there for my skill sets, should I start a business?" You know; a lot of people approach me and ask about, "Hey, what do you think about this?" Many people think about it, and it's not easy to start a business and many people end up not doing it but a lot of people think about it. So one of my first thoughts was, "Let's write a book about what does it take to make a great company, such that, even

if you have a small company you're going to start by yourself, you do it well from the start. What are the principles of good management?"

We wrote into the book a lot of our experiences as managers. I've been a CEO a several times, our experiences of what defines good management decisions. That definitely had nothing to do with CAT. It was how to do something great. So on the flip side, there's another group of people out there today that has gone through the Great Recession with their 401Ks in tatters. They buy stocks; they buy bonds, and whatever they get, they didn't do very well. They owned real estate that obviously didn't do well. So there's the whole coterie of people who, "Holy cow, we got to do something to resuscitate my 401K, we got to make sure that for the rest of my life that I do okay with my - even if it's a very small thousand dollars of portfolio, it might be more, it might be thousands; there're all different samples. For those people, my opinion has been that Wall St. and the people that deliver news to the investors whether there are Fidelity.com or Charles Schwab or eTrade or whoever your local broker that calls you up saying that "You should buy this."

It's a very confusing time to find what to invest in. What has struck me as an investor over the past decade is, the analysis you read, the numbers you read, rarely evaluates the management team well. So we wanted to write a book that said, "If you're going to pick a stock, pick one that has a management team that knows what the heck they're doing. And you don't read much about that in the analyst report. We made this model - here's what it means to be a great management team, now apply that to other companies. Do it yourself, you can think it through. A lot of it is common sense." So really, we started off with those kinds of ideas about this book and then at the end of the book, the last two chapters, we built a financial model which could show anyone how you go about analyzing the big

complex public companies and why you should or shouldn't buy their stocks. Of course, we predicted CAT's stock price through 2020 and the readers would really be interested to take a look at what that is.

Joe: The book has a tremendous amount of information, and it's just an excellent read which if I would glance through it in a bookstore, I don't know unless you sit down and read five or six pages of it that you'd realize that.

Craig: I'm very proud of what we did there.

Joe: If I'm the manager, what's the management lesson that you would hope to get across to me?

Craig: I don't know if there's one, so that's the complexity of greatness, if it was just one thing and everybody would do it. What happens in companies, we all know this, everybody listening to this podcast today works for a company - it's a for-sure. We all know how many things can get goofed up. The purchasing guy might have their favorite person that they play golf with, so they don't exactly buy, as well. The sales people have their favorites, and they do what they do. Operational people, they might be in unions and not worry so much about, what's more, efficient or more about the management of the union. So everybody can get goofed up in a lot of ways, make bad acquisitions, bring in a bad customer, borrow too much money, there are so many things that could go wrong. So with respect to management, being able to sort through all that and put a process in place in your company where employees communicate with each other and can make decisions that are all in their best interest of the company, that's where the magic is. It's about the blocking and tackling; it's not about brilliance, it's about teamwork. The bigger you get, the

more difficult it is to have teamwork. When you get hundred thousand employees, it's kind of difficult to think as a team. CAT is one of those rare cases where inside a company with several hundred thousand employees, they succeed.

Joe: I have to admit that that's very well-put, and I think that that's a great message that comes out of the book. It is a great team at Caterpillar from the board of directors down to the external components of the dealer network.

Craig: Yes, The dealers are all part of a team, and that's the crazy thing about it - they're all part of a team.

Joe: The book is available now I believe, and do you have any things coming up - promotion or anything like that?

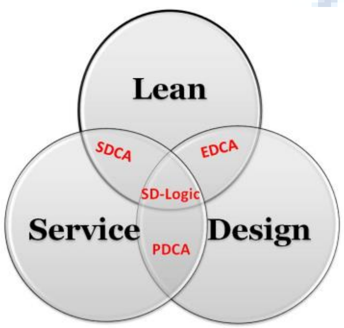
Craig: The book is fresh out on Kindle; it hits the shelves on Barnes & Noble on October 15th, and we're getting pretty close to that date and it'd be widely available on the brick-and-mortar bookstores. McGraw Hill did a wonderful job getting our book out. It's going to be translated into a different couple of countries and sold on three different continents. On my website craigbouchard.com, I'm actually sending - for friends and family and with a nice discount - I'm sending out an autographed copy. So if anybody for any reason wants to have one of those, you can get it there, as well. My third book coming out in January is in the form of interesting video game with a book sitting right next to it in the Apple store which is a children's adventure novel. All the fans who love Caterpillar are going to think my children's novels are my greatest work.

Joe: I think you did a wonderful job on the Caterpillar Way. Thank you very much for the

time today Craig and I will look forward to your next book!

Craig: Well thank you too Joe; you've got a wonderful group of customers and wonderful columns on Lean and Six Sigma. You pay attention to it. You're really one of the great guys out there so thank you for paying attention.

Joe: Well thanks again Craig. This podcast will be available on the Business901 iTunes Store and the Business901 blog site. So thanks everyone for listening.



Joseph T. Dager
Business901
Phone: 260-918-0438
Skype: Biz901
Fax: 260-818-2022
Email: jtdager@business901.com
Website: http://www.business901.com
Twitter: @business901

Joe Dager is president of Business901, a firm specializing in bringing the continuous improvement process to the sales and marketing arena. He takes his process thinking of over thirty years in marketing within a wide variety of industries and applies it through Lean Marketing and Lean Service Design.