

Vision 2020

An Interview with Doug R. Oberhelman,
Chairman and Chief Executive Officer, Caterpillar Inc.

EDITORS' NOTE Doug Oberhelman joined Caterpillar in 1975 and has held a variety of positions including Senior Finance Representative based in South America for Caterpillar Americas Co; Region Finance Manager and District Manager for the company's North American Commercial Division; and Managing Director and Vice General Manager for Strategic Planning at Caterpillar Japan Ltd. (CJL) - Tokyo, Japan. Oberhelman was elected a vice president in 1995, serving as Caterpillar's Chief Financial Officer from 1995 to November 1998. In 1998, he became Vice President with responsibility for the Engine Products Division. Oberhelman was elected a group president and member of Caterpillar's executive office in 2002. In October 2009, the Caterpillar Board of Directors named Oberhelman Vice Chairman and CEO-Elect. Oberhelman was elected Chief Executive Officer and a member of the board of directors effective July of 2010 and became Chairman effective November of 2010. He has a bachelor's degree in finance from Millikin University.

COMPANY BRIEF For more than 85 years, Caterpillar Inc. (www.caterpillar.com) has been making sustainable progress possible and driving positive change on every continent. With 2012 sales and revenues of \$65.875 billion, Caterpillar is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines, and diesel-electric locomotives. The company also is a leading services provider through Caterpillar Financial Services, Caterpillar Remanufacturing Services, and Progress Rail Services.

What is the secret to Caterpillar's consistent success?

There is a real deep commitment to the same set of values around the world. Part of Cat's secret sauce is that every one of our employees and our distributor's employees, as well as those of most of our suppliers, all understand that it is a level playing field.

The second secret to our ongoing success is a commitment to a dealership model where we sell almost all of our Cat-branded product to nearly 200 dealerships around the world and they resell to their customers and contractors. This allows those dealers to provide service 24/7 virtually anywhere on the planet.



Doug R. Oberhelman in the bucket of a Caterpillar machine

With the size and scale of your business, how do you maintain your innovative edge?

We have a real propensity to develop new products through our businesses. We expect those business leaders who are responsible for getting product to our customers to do what they have to do through innovation or other means to make sure we stay ahead of our competitors.

For example, our new hybrid excavator is truly helping our customers lower their owning and operating costs. We just won an Edison Award for that machine, which recognized the innovation behind it.

Do young people entering the workforce understand the type of career that Caterpillar can offer?

When you talk about high-tech and compare us to companies making an iPad or a space shuttle, no. But when you think about the level of technology inside each one of our machines

and what we're doing with that technology, we're able to hire the top electrical engineers and software engineers who appreciate that we're very creative.

Anytime you can get a person on a bulldozer and give him or her the experience of pushing dirt and creating things, people get into it quickly. It's fun stuff.

Does the U.S. still offer strong growth opportunity or will much of the growth come from international and emerging markets?

Yes and yes; 65 to 70 percent of our sales are outside the U.S. – those are the fastest growing economies with the fastest growing population base, and where we are least represented. This represents our long-term future.

But the U.S. and even Europe and Japan are still solid, stable, and mature markets – there is a lot of infrastructure development that we participate in going on in all three of those areas. So they're not dead by any means.

Given the state of the U.S. economy, we're growing at 2 to 3 percent in the developed world and we're growing at 4 to 8 percent in the developing world.

You have been very clear on your strategy through Caterpillar's Vision 2020. What are the key elements of that program?

Our vision here is pretty simple: it's about getting the balance among customers, employees, and shareholders right.

We have to deliver the highest quality products in this industry, which we are doing today. But part of our DNA is to create Cat products and machines that will outlast anybody else's; when it comes time to sell them, they will have a higher resale value than anybody else's – we have to maintain that edge.

Our service is also one of our critical advantages – making sure we do the basics right every single day. Ours is a high-quality product – if it breaks down or needs maintenance, it's serviced very rapidly with parts that make it there within a few hours so that the contractor can get back to work. That has defined our company for more than 80 years.

We plan to ensure that those business standards are adhered to elsewhere in the world because they work everywhere. However, that's not always easy. When we're operating in

a remote place like Western China or a tough place like Siberia, it doesn't work quite as easily. But we always strive to be better than our competition. We ask for a higher price for our products up front but, in the end, they make more money for our clients.

How do you define your target client market and how much can that market expand?

The largest construction equipment market in the world is China and it is well under-excavated today as a country. Beijing and Shanghai are not, but there are hundreds of millions of people that live in the western part of China and there is still excavation and modernization to do there – it's the same in most of the developing world. There aren't many countries with roads per capita even close to America and Europe, but eventually that will develop. As those countries grow, new customers are formed. Construction companies are growing and productivity is required, so we're going to be there for them.

What are the key markets you're most focused on?

Certainly the well-known markets like China and India, but also the other developing parts of Asia like Indonesia. Indonesia is expected to spend about \$40 billion in infrastructure this year alone, with more to come. There is a huge redevelopment program there. We have been active there for more than 40 years, and we'll participate in that. In Thailand, we just opened two plants.

We're also focused on Latin America, and we continue to grow in Brazil and Russia. Essentially, there is opportunity in almost every developing country.

There are seven billion people on the planet and when I joined Caterpillar in 1975, there were maybe 3 to 3.5 billion people on the planet. Less than 1 billion people were open to Caterpillar type products and services: Russia, China, and India were closed; The Vietnam war was over, but the aftermath of that conflict still kept much of Southeast Asia closed for business to the U.S.; Latin America was bankrupt. We had only a few people in the world to sell to – less than 1 billion.

Today, with the seven billion people on the planet, there are probably only 500,000 million that we can't sell to. All of these seven billion people want to live as progressively and modern as we do, and all of that requires infrastructure from roads to bridges to electric power, which is where we are. The challenge for us is to make sure we do in overseas markets as well as we're doing in modern markets.

Along with your investments in the latest technologies, how do you ensure that your people continue to emphasize the value of personal relationships?

It's still a people and relationship business. Compared to automobiles, computers, or movies, we have a relatively few number of customers around the world, and ours is a capital good that people use to make money for the most part.

So while we're working on social media to introduce ourselves to more customers, our model – including our product from the

factory and our dealer support – have to connect with the guy in the dirt using the equipment to support what he's doing. It requires a lot of one-on-one time because somebody from the dealer's work site, who represents us, has to go service that tractor – that is person to person.

How high up do you need to be working with your customers and is it at different levels within their organization?

Yes. For example, there are many customers for which I will call on their CEO and top management team regularly, but the vast majority of customers are small contractors with a small number of machines trying to grow their business and become bigger. There is also another group of them in the emerging markets who may start with one or two machines and go from there.

So we have to be on the ground with a lot of representation from the dealers we have serving those territories.

Is it critical that your workforce mirrors your diverse customer base?

Our China management team, for example, is mostly comprised of our Chinese Caterpillar people. We have about 7,000 employees in Brazil and there are only a handful of expats to speak of there.

So we have had some great success, but we have a lot more work to do with diversity.

How important is corporate responsibility to the culture of Caterpillar? Do the areas you support align with the business?

The Caterpillar Foundation provides support in the areas of environmental sustainability, access to education, and basic human needs. Sometimes that comes in the form of disaster recovery – be it tornadoes in Oklahoma or flooding in our hometown of Peoria, Illinois. We support groups that will go in and help alleviate a situation, and we'll match employee donations. It's the right thing to do and Cat equipment can play a role in recovery.

Are you concerned that the U.S. is losing its competitive edge?

The U.S. is not doing enough to maintain its global leadership. We have breakdowns in three critical areas: first, our education system. We do not turn out people with an appreciation for STEM like we did when I came out of high school.

Second, our fiscal situation in the U.S. will continue to weaken our country.

Third, our tax system in this country is no longer appropriate and competitive.

That said, we are still competitive. For example, we are moving some production from Japan to the U.S. The fact that for the past 15 years we have had such high productivity in the U.S. has helped us all. But there is a limit to it based on education, our fiscal situation, and our tax system.

Is it tough to remain optimistic in terms of what is taking place in Washington?

It's tough when you listen to the chatter. But I talk to employees and customers around the country, and there is still innovation going on; there are still wonderful things happening – we can do this even with that dysfunction in Washington.

Imagine what we could do here if we had less dysfunction. The world right now is looking for leadership and we could supply that but we can't seem to get it together.

If someone told you when you started with Caterpillar that you would one day lead the company, would you have believed him?

I would have thought he was crazy. When I came here, I had a thick car payment book and a huge amount of student loans, and what I had in mind was getting ahead of that.

I'm not sure I had ever met a CEO or knew what a CEO did in 1975. But it has worked out for me beautifully and I'm so proud of this company. I love my job every day.

What has kept you with Caterpillar?

I started my career in international finance, and I had some fascinating assignments early on. The next one was more fascinating than the last and hooked me in for another two to five years. Pretty soon, I looked up, and I had 10 years and then 15 years behind me, and I was still loving it. When I became an officer of the company, I went into the engine business, which I had never experienced, and that was fun.

At a company this size, there are many opportunities that are as diverse as other companies can offer. The challenge for me and our management team is to make sure that we recognize those people that want to do that and give them those experiences.

With your expertise in so many areas, is it challenging to step back and be less engaged?

I've never considered myself a micromanager, and I strongly believe in teams and in leaders leading those teams. So one of the first things we did in early 2010 was reorganize the company around very strong teams with a very strong leader at the corporate level. I make sure that they get all of the tools and I hold them accountable, and I try not to influence or micromanage them.

What are the areas you feel you need to work on?

My biggest obligation as Chairman and CEO is to make the right strategic moves during my short tenure here so that whoever is at my desk in 50 years says, I don't know who he was but he did a great job – that's what I say looking at my predecessors. They set me up. So the biggest weight on my shoulders are the strategic pieces – are we doing the right things to be sure we'll be here for a long time?

Also, what I worry about is not so much the things within our four walls but what is going on out there – things I can't control or don't see coming. We have to make sure we can handle anything that comes at us.

If I was talking to some of those who have worked with you without you in the room and I asked what it was like to work with Douglas Oberhelman, what would they say?

I hope they would say that he let me run my business but he held me accountable. ●