

CATERPILLAR INC.



Background

Caterpillar Inc. USA is a global manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines, with 110 plants, spread over 23 countries. With a turnover of US\$ 22.76 billion, it is one of the largest companies in this sector.

Caterpillar Inc. has a significant presence in India through three key ventures:

- Caterpillar India Private Limited (CIPL) is a wholly-owned subsidiary of Caterpillar Inc., formed after the acquisition of the earthmoving equipment division of Hindustan Motors by Caterpillar in February 2001, for an estimated US\$ 71 million. The company manufactures construction and mining equipment at its facility in Thiruvallur, about 850 kilometres from Chennai, Tamil Nadu.
- Caterpillar also has a majority-owned subsidiary called Hindustan Powerplus Limited (HPL) which manufactures diesel engines and generating sets in the 180 KVA to 2250 KVA range. HPL was incorporated in 1988 and has a manufacturing facility for internal combustion diesel engines and generator sets at Punapalli village near Hosur in Tamil Nadu. The company also sells spare parts for the engines.
- Caterpillar Commercial Private Limited is a 100 per cent subsidiary of Caterpillar Inc. Established in 1998, the company deals with various Caterpillar products such as machines and large and medium speed engines. The company is also involved in the operations and maintenance of mega power plants.

Prominent player in the Indian market

Over the past 3 years, Caterpillar has been consolidating its position in the Indian market. Two

world-class dealers, GMMCO Ltd. and TIL Ltd., support Caterpillar in India.

The company launched the first CAT brand earthmoving equipment to be manufactured in India (424 series I backhoe loader), in August 2003. Before the launch, of CAT brand machines, motor graders, hydraulic excavators and even wheel loaders were imported.

Steady growth in volumes and turnover

According to published sources, the company had a turnover of about US\$ 52 million in fiscal 2003, and was targeting to double that to US\$ 109 million in fiscal 2004. The company planned to sell 750 machines, consisting of 300 loaders, 150 backhoe loaders and dumpers in fiscal 2004.

Optimistic outlook, despite stiff competition

The company faces stiff competition from established players like JCB. According to an industry official, the market size for all earthmoving and construction equipment put together is around 6,000 units, of which backhoe loaders make up 3,500 units. JCB India owns nearly 80 per cent of backhoe loader market in India. However, CIPL is optimistic about its position in India.

Factors for success

Focus on quality and operational efficiency

From the outset, CIPL has had a strong focus on quality. To this end, it focused on implementing Six Sigma and the pursuit of operational excellence using Class A disciplines.

Superior product development capabilities

Caterpillar's unique New Product Introduction (NPI) process gives guidance, direction and accountability to all stakeholders while ensuring its overall success.

The cornerstone of this product development process is the customer validation exercise where machines are placed in a non-clinical environment and evaluated for more than 3,500 hours.

The company uses tools like the Prediction of Estimated Reliability Growth Plan (PERG) and statistical tools such as the Weibull Analysis for checking machine performance prior to launch.

Such processes and tools enabled the company to successfully launch the backhoe loader, and assure success in a competitive market.

Leveraging the India Advantage

Engineering capabilities

Caterpillar has its Engineering Services Division (ESD) in India. Located at Thiruvallur, the 100-member division caters to the engineering design needs of Caterpillar Inc.'s various facilities located across the world. It converts the 2D legacy drawings to 3D compatible to Pro E software, Caterpillar's own software.

IT capabilities

Caterpillar is setting up a subsidiary for its E-Logistics business in India that would provide services to the MNC and its worldwide subsidiaries. Located in Bangalore, the proposed E-Logistics venture will provide various IT-enabled services (ITES) such as data processing, supply chain management, application software and web development to Caterpillar Inc and its various subsidiaries worldwide.

Future plans

- CIPL plans to launch more models after the backhoe loader, such as the 1025 Series I truck
- Caterpillar plans to outsource auto components from Indian component suppliers.

Caterpillar: AT A GLANCE

- Caterpillar Inc. USA: 23 countries. 110 plants. Revenues of US\$ 22.76 billion
- India: Caterpillar India Pvt Ltd, Thiruvallur, Tamil Nadu. Hindustan Powerplus Ltd, Punapalli, Tamil Nadu. Caterpillar Commercial Pvt Ltd
- Steady growth. Optimistic outlook
- Launched first CAT brand earthmoving equipment manufactured in India
- Factors for success: Focus on quality and operational efficiency. Superior product development capabilities
- For Caterpillar, India is: Engineering hub. IT source. Growing market.
- Future plans, India: Launch of new product models. Source of auto components