



## John Deere in Spain

**Courage, adaptability, and the ability to anticipate brought John Deere’s Spanish tractor manufacturing operations from the brink of oblivion to the pinnacle of success, and an award for industrial excellence. The CEO tells INSEAD Knowledge how he did it.**

There are few things in the life of a manager as unsettling as knowing your company’s days are numbered. Especially when a sister company in the same market wins the luck of the draw and headquarters - half a world away - tells you to wind down operations.

That was the story at John Deere Spain in 1986 following a decision by U.S. management to move all European tractor manufacturing to Germany. For workers at the Spanish subsidiary of the global agricultural and construction machinery group, there were few options. Spain had just joined the European Union, and Deere headquarters wanted to consolidate European operations.

“We had to look for a new business,” the CEO of John Deere Ibérica, **Mario de Miguel** (EMBA ’10Dec), told INSEAD Knowledge in November, 2011, at the European Industrial Excellence Awards in Nuremberg, Germany, where he was honored for his work in restructuring John Deere Ibérica in the face of seemingly insurmountable odds.

### Steering into the unknown

“Based on the knowledge we had, we chose to get into the component drivetrain business because we were very vertically integrated,” he continued. That

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meant transmissions, gear boxes and axles - key components of Deere & Company equipment. The new business was launched in 1990 and the last Lanz model tractor rolled off the assembly line in 1994, ending a 41-year run.

Retooling was a gradual process and was carried out during an era of rapid political change in Europe, highlighted by the opening of the Berlin Wall and German reunification. The new strategy of the late-1980s called for lean production. “We wanted to limit what we made,” de Miguel explains. So the company began focusing solely on drivetrains – heavy duty components for an entire range of agricultural products, including tractors, crop harvesters, combines, planters and sprayers. Other promising drivetrain components included transmissions and axles for construction and forestry vehicles.

In the mid-1990s, de Miguel sensed the need to offer customers much more than simple gearbox components. He and his team began to work closer with customers to identify their farming, construction and timber harvesting needs. Soon Spain was offering a broad array of services, designing and testing new drivetrains based on customer specifications. That involved sending a battalion of engineers into the field to work with

customers and other John Deere subsidiaries to develop custom equipment. Spanish-based engineers would design and even simulate new components and later put them through rigorous tests.

Another service that has helped to increase sales is financing. John Deere offers credit to established farming and construction groups to stimulate sales of new and used equipment. (Interestingly, de Miguel says their vehicle painting business is thriving. Farmers are extremely visible in the fields and want the signature John Deere colors - green with yellow trim).

### Strict performance management

The strategy over the past ten years borrows from The Law of the Vital Few (the rule that a company should spend 80 percent of their time on the vital 20 percent of their business) and takes into account the involvement of management, employees, suppliers and customers. De Miguel says local management “actively engages employees”. That ensures a “better scorecard for safety, quality and delivery”. The goal is to please the farmer or building engineer and achieve long-term success. To implement this strategy, Spain introduced a strict performance management system with clear objectives and teams dedicated to continuous improvement.

The results, according to de Miguel, have been a 95 percent measurable improvement in quality over the past six years and a 3-fold increase in sales since 2001. De Miguel now calls John Deere Ibérica a “center of excellence”. The aim of the center is to maintain control of product design, which includes “keeping know-how in-house” and managing prototypes. Equal attention is paid to cost control and “providing the best source for each application”.

Despite higher raw material costs and the relative strength of the euro against the U.S. dollar and other leading currencies, John Deere Ibérica has succeeded in boosting exports. Foreign sales now account for nearly 100 percent of the company’s €300-million annual turnover, making John Deere one of the top exporters in Spain. Most sales are generated in Europe, followed by the U.S., Mexico and Brazil. At present, the company’s chief European competitors are Claas and CNH Global.

In an effort to remain price competitive, John Deere Ibérica now plans to manufacture some of its components in India. Management believes that would allow them to leverage sales to other markets in the region.

Farm income in the EU has been extremely volatile

in recent years due to changing input and output prices and chaotic yields. This has been critical for smaller farms where incomes are low. From 1993 to 2007, profit in the 15 western EU member states increased 30 percent, according to statistics. But income plunged in 2007 when the commodity price bubble burst and the recession set in. Technological progress has improved farming productivity greatly in recent years. The EU reports “one full-time worker produced 26 percent more agricultural products” in the period 2002 - 2009. That oversupply led to a 14 percent decline in food prices. Prices have stabilised over the past year, but the EU warns that agricultural income will remain volatile.

### Bright future for tractors

Despite this sector outlook, de Miguel is upbeat about sales and profit for John Deere in Europe as farmers upgrade equipment and fresh markets open in the new EU member states. “Revenue in Europe is growing,” he says. “We want to expand our product line here and grow with the customer.”

The headquarters of Deere & Company is located in Moline, Illinois. Profit in its fiscal 4th quarter 2011 surged 46 percent to US\$670 million - far better than analysts had expected. Global net sales jumped 23 percent, the company reports, to US\$32 billion in 2011. It has also raised its forecast for growth in the coming year due to what it says is strong worldwide demand for agricultural commodities. Over the past fiscal year, it has also increased its global workforce 10 percent to 61,300. In Spain, John Deere employs 1,100.

“If it moves, we make it,” de Miguel boasts. “Anytime someone thinks of drivetrains, they think of us.”

In accepting the Industrial Excellence Award in Nuremberg, de Miguel said, “When you believe in the impossible, you have an advantage over your competition.”

*The Industrial Excellence Award is a long-standing research study founded in France at INSEAD in 1995 and has been operated in conjunction with partner school WHU since 1997. It identifies best practice in process management in European manufacturing business units, documents enablers for operational excellence through books, and celebrates outstanding management quality through annual awards with media partners Usine Nouvelle and WirtschaftsWoche. The programme evaluates the management and alignment of key processes such as production, supply chain, new product and process development, and strategy deployment. To learn more about the research study and award programme, and for information on how your business unit might apply, please visit*

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