Face value

Green revolutionary
Bob Lane’s management philosophy has helped an American firm to reap a record harvest

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"I AM not one of those neo-Malthusians," insists Bob Lane. On the contrary, the boss of Deere believes that technological innovation, not least by his agricultural-equipment firm, will continue to increase the productivity of farmland, thereby enabling the world’s ever-growing population to be fed. The past few years have seen important breakthroughs, he says, such as the use of global-positioning satellites to automate ploughing and seeding, reducing wasteful double planting. The latest versions of the famous green John Deere tractor are “sophisticated mobile information factories”, says Mr Lane. “They practically drive themselves, while the driver uses the internet to sell corn.”

Technology is one of three reasons why Mr Lane is extremely bullish. (So are his investors who, before recent stockmarket wobbles, lifted Deere's share price to over three times what it was when Mr Lane took charge in 2000—and some 90% above its previous all-time peak.) The second source of his optimism is the global boom in agriculture, which is leading to record demand for Deere's products, including combine...
harvesters, balers and seeders, as well as tractors. The firm also makes equipment for forestry, construction and even lawn care. Corn plantings in America are expected to be at record levels this spring, due to the growing demand for corn-based ethanol biofuel. Yet ironically for a firm headquartered in Moline, Illinois, at the heart of America's subsidy-addicted, protectionist farming industry, the strongest source of demand is abroad, as agriculture becomes more mechanised in prosperous developing countries. As Mr Lane puts it, "There are 2 billion more people able to afford to eat."

Not that global demand is new to Deere. The 170-year-old firm has operated in Europe for over 50 years, and its tractors were exported to Stalin's Soviet Union. A previous boss, the last to come from the founding family, was on the second corporate jet allowed into China after Henry Kissinger's icebreaking meeting with Chairman Mao in 1972. But Deere's business really started to blossom overseas in the 1990s, after Mao's successor, Deng Xiaoping, embraced a version of capitalism, India started to liberalise its economy and Mercosur, the Latin American trade agreement, was signed. Today Deere sells its products in 130 countries and makes them in 16. Half of its workforce is based outside America. Indeed, Deere exports the small, durable tractors it makes in India to America.

Mr Lane is particularly optimistic about demand from Brazil, which is picking up again after some lackluster growth in the past two years, due to the appreciation of the real. Deere will open a new factory in Brazil this year. In the long run Mr Lane thinks that Brazil is best placed of all the big emerging economies to increase the amount of land put to efficient agricultural use—and not, he insists, as a result of deforestation, as the Amazon is well north of the land he has in mind. "Brazilian society allows the wealthy to own and profit from lots of land," he says, in contrast to China and India, where rules governing land ownership are holding back the move to efficient large-scale farming.

Mr Lane's third reason for optimism comes from the big changes he has made in how Deere is run. These grew out of his own background, in finance, not farming. He grew up in big cities, including Washington, DC, and did his MBA at the University of Chicago. He first seemed destined for a career in banking, and joined First National Bank of
Chicago (now part of JPMorgan Chase), which sent him to Germany, where Deere was his main customer. The firm became his employer when it needed someone to improve the financial strength of its dealers, who were suffering badly during the recession of the early 1980s.

After becoming chief financial officer in 1996, Mr Lane became increasingly conscious that the firm was underperforming. It had great products, reflecting the homespun philosophy of its eponymous founder, who declared: "I will never put my name on a product that does not have in it the best that is in me." But it was not a great business. Its working practices were old and slow, reflecting a workforce dominated by the UAW, the United Auto Workers. It had too much working capital and too much gear sitting unsold in showrooms. It was, says Mr Lane, "asset-heavy and margin-lean".

Show me the money

As soon as he became chief executive he set about converting Deere to the pursuit of shareholder value, a philosophy he had embraced at the University of Chicago. All of the firm's 48,000 workers were told that they had to deliver "shareholder value-added", an "easy-to-understand" measure of profitability Mr Lane devised that involved charging each business unit a cost of capital of 1% of assets a month. Each business unit was required to earn a shareholder value-added profit margin of 20% on average over the business cycle. Financial rewards are linked to this measure, even for the unionised part of the workforce: the UAW ultimately proved open to change.

To get so many people involved in this way is "pretty unique", says Mr Lane. It seems to be working. Productivity is up by 11% since the new contract took effect. There is far less equipment wasting away at dealerships, thanks to new, lean just-in-time production. The pension-fund shortfall has been fixed. Deere's dividend payout has been doubled and its debt rating has been upgraded. But the big test is whether each business unit can maintain strong performance over an entire business cycle, Mr Lane maintains. "If not, it's just a flash in the pan—it doesn't count," he says. The average target of a 20% margin is supposed to encompass 28% at the peak of the cycle and no worse
than 12% at the trough (compared with zero or worse in the past). The
first test may come in the construction division, given the trouble in
homebuilding in America, says Mr Lane. Still, if things continue to go
well, "perhaps, in the year 2014, we could declare ourselves a great
business," he says.