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Overview of the company:
Deere & Company was founded in 1837 by a blacksmith named John Deere who built an empire as a manufacturer of agricultural equipment through his invention of a newly designed plow. Although steam tractors were introduced to farms in the 1880s, Deere did not start building their iconic John Deere tractors until they purchased a small tractor company, Waterloo Boy, in 1918 which was long after John Deere’s death in 1886. Deere is deeply rooted in agriculture as evidenced by their manufacturing of farm equipment and in their development of efficient farming strategies, logistics, and insurance products. The company has grown to be one of the world’s largest and most recognized manufacturers of agricultural, construction, forestry, and turf equipment despite several tumultuous periods and is celebrating their 175th anniversary this year, 2012.

Deere & Company’s headquarters are located at:
United States: European (Germany):
One John Deere Place John Deere Strasse 70
Moline, IL 61265-8098 68163 Mannheim

Information available on John Deere’s website found at www.deere.com.

1) Current Situation
a) Financial Performance
i) For 2011, Deere reported the company’s income was up by 50% at $2.8 billion with net sales and revenue increasing by 23% at $32 billion which set new company highs (Deere annual report and Chairman’s Message, downloaded at www.deere.com/). In addition, at the end of 2011 Deere had approximately $4.4 billion in cash and marketable securities.
ii) Deere exceeded earnings expectations for the past nine quarters. (www.fidelity.com)
   (1) John Deere has lagged both the industry (Machinery) and sector (Industrials) earnings per share (EPS) for the last twelve month average and five-year average. However, Deere has an annualized dividend yield of 2.26% while the industry is at 1.89%, and a trailing twelve month (TTM) payout ratio (amount of earnings

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1 Fidelity.com is a proprietary website that is available to customers of Fidelity Investments.
paid out) of 23.20% with a 1 year dividend growth at 31.43% versus industry of 28.51%, which indicates that a significant amount of John Deere’s earnings are paid out to their shareholders. Deere’s PEG ratio (Price/Earnings to Growth) is at 1.1 with the industry at 1.6 and sector at 1.4, which indicates that John Deere may be currently undervalued and has higher potential growth as compared to its competitors (a lower PEG indicates a company may be undervalued).

(2) According to the S&P Compustat Report for March 6, 2012 (downloaded from www.fidelity.com), Deere’s earnings volatility is high even though no losses have been reported for the past five years.

(a) The earnings volatility reported by Standard & Poor’s may be an effect of the consistently high dividend yield as Deere tends to pay a significant portion of their earnings to shareholders. One consideration is to adjust the dividend lower to increase earnings, which would create greater strength in earnings for potential growth investors, which may be a market opportunity for Deere. Currently, it appears Deere is focused on long term income investors who seek out dividend yield and stability as opposed to growth investors.

(b) As illustrated in Deere’s financial profile, they repurchased 3.8% of their outstanding shares in 2011 which is a red flag for investors because this can be viewed as a strategy to boost stock value artificially (GMI Analyst Report Feb 2012, downloaded from www.fidelity.com). The repurchasing of shares can imply a maneuver by the company to synthesize added share value by offsetting dilution due to stock options given as employee compensation or to artificially boost earnings per share to cloak the effect of high dividend yield. John Deere should not repurchase stock shares unless they believe they are truly undervalued, in which case it would be recommended to issue an investor letter explaining the move in conjunction with a tender offer to obtain a portion, if not all, of the target number of shares. By issuing a voluntary tender offer, investors will have an opportunity to assess the situation and make an educated decision based on transparency of motives. John Deere also sold its wind energy business, John Deere Renewables, LLC, at a time coinciding with a possible negative earnings outlook. Again, this maneuver can artificially boost earnings and give a false impression to investors. It is recommended that these types of transactions be aligned with a time where motives can be explained clearly and transparency is evident.

iii) Financial Ratios

(1) Profitability (see Table 1. & Figure 1.)

(a) Over the three year period 2009 – 2011, Deere’s gross profit margin remained fairly flat, yet out of the top 3 companies in the machinery industry they maintain the highest margin (S&P Compustat Report for March 6, 2012). This is indicative of an effective pricing model in relation to sales volume. In addition, Deere’s net margin increased across the three year period, with it
doubling from 2009 to 2010 and increasing by another 2% in 2011. Again, this indicates an efficient pricing model as cost of goods sold increased by almost 40% in the same time period.

(b) Deere’s Return on Equity rose significantly over the three year period 2009 – 2011, which shows a strong return and efficient use of shareholders investment dollars; return on investment maintained the same trend.

(c) The S&P Compustat Report for March 6, 2012 shows Deere being in the top half of gross and net margin in its sector and industry, and very well positioned across six separate measures of profitability when compared to five peers.

(2) Liquidity (see Table 1. & Figure 2.)
(a) Deere’s current ratio has decreased from 2.31 in 2009 to 2.05 in 2011, but it still maintains fairly high liquidity from a ratio perspective. In addition, their working capital has increased over 11% during that time period, which when paired with a decreasing current ratio can imply growth in the company.

(3) Financial Leverage (see Table 1. & Figure 3.)
(a) Deere’s Total Debt to Total Assets has decreased from .88 to .86 from 2009 - 2011, but it did increase slightly from .85 in 2010. This is not alarming in that the overall trend shows a greater increase in Deere’s assets over the term than liabilities and overall utilizes debt less than most of its group peers (S&P Compustat Report for March 6, 2012). Their long term debt to net working capital shows a slightly better trend as it continues to decrease through 2011.
(i) However, from an industry standpoint Deere remains as one of the most leveraged companies, especially when considering that their sales volume is less than most of its peers (S&P Compustat Report for March 6, 2012). Although it is common to use leverage to try and increase value for shareholders, being over leveraged relative to income can be a major red flag for investors from a risk standpoint. In this respect, Deere would need to increase sales and/or decrease its leveraged position to balance out the equation.

(4) Efficiency (see Table 1. & Figure 4.)
(a) From an industry standpoint, Deere lags in efficient use of its cash for sales but the company has increased its efficiency significantly over the period 2009 – 2011 as evidenced by its cash turnover. But, Deere’s total asset turnover for 2012 is .7x, which is a low turnover rate to sales showing a lack of efficient use of assets to sales. In addition, its days’ sales in inventory has increased from 55.7 in 2009 to 73.45 in 2011, which implies that Deere needs to implement an aggressive sales plan and/or decrease production to bring their sales back in alignment with inventory.

(5) Valuation (see Table 1. & Figure 5.)
(a) Deere’s book value to common share grew by 47% between 2009 – 2011 (2009 was 11.39 and 2011 was 16.75) and as reported by the S&P Compustat Report for March 6, 2012 has a price to book ratio at 4.5x, which is higher than most all of its group peers.

(i) Although this is indicative of a strong company valuation, the repurchase of shares and high leverage in conjunction with the divestiture of its wind energy business can all be contributing factors, which can also be a red flag for investors.

(6) Summary

(a) John Deere has been very strategic in its management of company assets and from the viewpoint of a current investor it would be positive as shareholder’s value increases. However, from the perspective of a future investor, increasing net sales is an issue that needs to be aggressively addressed and decreasing their leverage may be a consideration, especially if sales targets are unobtainable. In addition, Deere should consider not repurchasing significant amounts of DE stock unless they feel they are not fairly valued in the market, which is currently not the case based on their price to book ratio. Although divestitures can be a red flag, it is not known what motivated the sale of the wind energy business and this would require more in-depth research to reach a conclusion. However, as a general consideration, Deere may consider reserving future divestitures for a time period where their motives would not be as susceptible to scrutiny.

b) Performance Goals (www.deere.com)

i) John Deere has listed several performance and overall company health goals.

(1) Performance: Deere states that these are conventional financial measures based on what they currently provide to stakeholders.
(a) Sales measured by Net Sales Growth with a target of $50 billion by mid-cycle 2018; this is considered to be the chief metric to base their strategic success.
(b) Profitability measured by Return on Sales (Operating Margin) with a target of 12% by mid-cycle 2014.
(c) Asset Efficiency measured by Asset Turns with a target of 2.5x by mid-cycle 2018.
(d) Deere has implied a Compounded Annual Growth Rate (CAGR) of 9% versus their historical rate of 7-8%.

(2) Health: Deere states that these are based on the company’s success factors and are a combination of attributes and actions being initiated to secure performance sustainability.
(a) Exceptional Operating Performance measured by Quality with a targeted percentage JDQPS certification (John Deere Quality Production System).
(b) Disciplined SVA (Shareholder Value Added) Growth measured by sales/SVA mix by geography with a targeted % of non-US/Canada.
(c) Aligned High-Performance Teamwork measured by employee engagement with a targeted Employee Survey’s Engagement Index.

c) **Strategic Posture** (www.deere.com)

1) **Mission:**

Double and Double Again the John Deere Experience of Genuine Value for Employees, Customers and Shareholders.

Run Smart – Think like an inventor, being first in creating smart and innovative customer solutions through machines, service and concepts.

Run Fast – Think like a customer, pursuing rapid expansion of our global customer coverage on the farmsite, worksite and homesite.

Run Lean – Think like an investor, driving financial returns higher by maximizing employee performance, achieving global cost leadership, reducing asset intensity, and creating profitable global preeminence through acquisitions, strategic alliances, and e-business.

(1) John Deere's mission is to "Double and Double Again the John Deere Experience of Genuine Value for Employees, Customers, and Shareholders." This will be accomplished by rapidly expanding global customer coverage on the farmsite, worksite, homesite, and turfsite by being first in creating smart and innovative customer solutions through machines, service, and concepts. The company's business strategies of Running Smart, Running Fast, and Running Lean will help John Deere achieve its mission.

ii) **Core Values:** As listed on John Deere’s website, their core values have remained the same since 1837 and are the core values that the founder established at that time.

(1) Integrity, quality, commitment, and innovation.

iii) **Objectives:**

(1) John Deere has diversified business units that complement each other under five (5) departments:

(a) Corporate, Ag & Turf, Construction & Forestry, Financial Services, and Supporting Businesses


(2) These businesses paired with John Deere’s global growth strategy are designed to create sustainable value to shareholders; as stated by Deere “sustainable SVA (Shareholder Value Added) in addition to efficient business and performance practices.
As defined by John Deere: Shareholder Value Added (SVA) is a metric for sustainable performance used to evaluate business results; it is the difference between operating profit and pretax cost of capital.

Per the Chairman’s Note in 2011, Deere accomplished a record of $2.53 billion in SVA for 2011 with operating cash flow of $2.33 billion.

**iv) Strategies:**

1. John Deere is implementing a strategy that will increase its international presence in an effort to increase global sales. Deere has identified several key factors to rationalize the focus on global markets. Deere is focusing its growth in six global regions:
   - North America (United States and Canada), Europe, Brazil, Russia, India, and China
   - John Deere sees opportunities within these regions due to a global increase in population and trending economic growth. They believe the majority of economic and population growth will be generated by emerging economies and that will position their agriculture, construction, and forestry businesses in a place to take advantage of the growth in these sectors. John Deere also sees opportunity in agriculture from the standpoint of more people transitioning from rural to urban areas, establishing a larger market for efficient agricultural equipment as human resources decrease.
   - This international focus is aligned with a strong growth strategy and increased sales and market share.

2. All individual employee, unit, and divisional goals are integrated with the company’s overall business goals which align them with a culture of teamwork as opposed to individualism.

3. John Deere is targeting four additional strategies to meet the demands of stakeholders, specifically to accomplish their sustainable SVA growth initiative. The four initiatives that Deere will focus on are: Deep Customer Understanding, Delivering Customer Value, World-class Distribution System, and Growing Extraordinary Global Talent.

**v) Policies:**

1. John Deere maintains very strict and systematic corporate governance policies and business guidelines/policies that align with their core values and mission in addition to supporting their business strategies and overall objectives.

2) **Corporate Governance** (www.deere.com/)

   a) **Key Stakeholders** are identified by John Deere as employees, investors, customers, and other entities that have an investment in the company and/or support John Deere’s interest in the development of sustainable food supplies.
b) **Board of Directors:** *All information obtained from www.deere.com*
   
i) **Samuel R. Allen:** Chairman and Chief Executive Officer

   ![Samuel R. Allen](image)

   (1) Held position since 2010 and as a senior officer in John Deere since 2001.
   (2) Began with John Deere in 1975 after graduating from Purdue University with a bachelor’s degree in industrial management.

ii) **Crandall C. Bowles (since 1999):** Chairman, Springs Industries, Inc.; Chairman, The Springs Company

   ![Crandall C. Bowles](image)

   (1) Held Chairman of Springs Industries, Inc. position since 2007 and joined Springs Industries in 1973 as a financial analyst.
   (2) Has been a Springs Industries board member since 1978 and is also on the board of directors of Sara Lee Corporation and JP Morgan Chase.
   (3) Graduated from Wellesley College with a degree in economics and from Columbia University with an MBA.

iii) **Vance D. Coffman (since 2004):** Retired Chairman, Lockheed Martin Corporation

   ![Vance D. Coffman](image)

   (1) Held Chairman position from 1998 until his retirement in 2005 and had also served as CEO and vice chairman since 1997.
   (2) Started with Lockheed’s Space Systems Division in 1967 and served in an executive capacity since 1985.
   (3) Also serves on the board of directors for 3M Company and Amgen Corporation.
   (4) Graduated with a bachelor’s degree in aerospace engineering from Iowa State University and a master’s degree and a doctoral degree in aeronautics and astronautics from Stanford University.
iv) **Charles O. Holliday, Jr. (since 2007):** Chairman, Bank of America Corporation

(1) Has held the Chairman position for Bank of America since April of 2010 and also has served as chairman of the board for DuPont in 2009.
(2) Began with DuPont in 1970 and an executive position since 1990, serving as CEO from 1999 until his retirement in 2009.
(3) Also serves as director of CH2M HILL Company, Ltd. and Royal Dutch Shell PLC.
(4) Graduated with a bachelor’s degree in industrial engineering and has received honorary doctorates from several other universities.

v) **Dipak C. Jain (since 2002):** Dean, INSEAD (France)

(1) Has held the dean of international business school INSEAD since March 2011.
(2) Began as an associate professor at the Kellogg School of Management in 1986.
(3) Also serves on the board of directors for Northern Trust Corporation, Reliance Industries Limited in India, and Global Logistic Properties Limited in Singapore.
(4) Graduated from Guwahati University in India with a bachelor’s in statistics and a master’s in mathematical statistics, and received a master’s in management science and a doctorate in marketing from the University of Texas at Dallas.

vi) **Clayton M. Jones (since 2007):** Chairman, President and Chief Executive Officer, Rockwell Collins, Inc.

(1) Has held positions at Rockwell Collins since 2002.
(2) Joined Rockwell International in 1979 and has held an executive position since 1988.
(3) Also serves on the board of director’s of Rockwell Collins Inc.
(4) Graduated with a bachelor’s in political science from the University of Tennessee and an MBA from George Washington University.
vii) **Joachim Milberg (since 2003):** Chairman, Supervisory Board, Bayerische Motoren Werke (BMW) AG

![Joachim Milberg](image1)

(1) Has been chairman of the board of management at BMW since 1999 until his retirement in 2002 and a member since 1993.
(2) Joined BMW in 1993; prior to that he taught at Munich Technical University.
(3) Also serves on the board of directors for Bertelsmann AG, BMW AG, Munich (Chairman of the Supervisory Board), Festo AG, Esslingen, SAP AG in Walldorf, and ZF Friedrichshafen AG. Mr. Milberg is currently the vice president of acatech-Deutsche Akademie der Technikwissenschaften.
(4) Graduated from the Technical University of Berlin with a doctorate in production engineering.

viii) **Richard B. Myers (since 2006):** Retired Chairman, Joint Chiefs of Staff; Retired General, United States Air Force

![Richard B. Myers](image2)

(1) Held the position of the 15th Chairman of the Joint Chiefs of Staff (which is the highest ranking officer in the U.S. military) from 2001 – 2005.
(2) Also serves on the board of directors of Aon Corporation, Northrop Grumman Corporation, and United Technologies Corporation.
(3) Graduated from Kansas State University with a degree in mechanical engineering and from Auburn University with an MBA, in addition to attending several military based programs.

ix) **Thomas H. Patrick (since 2000):** Chairman, New Vernon Capital, LLC

![Thomas H. Patrick](image3)

(2) Began with Merrill Lynch in 1982 and held several positions within the company.
Also serves on the board of directors of Baldwin & Lyons, Inc., Computer Sciences Corporation, and New Vernon Capital LLC.

Graduated from Rutgers University with a bachelor’s in economics and from the University of Pittsburgh with an MBA in finance. In addition, Mr. Patrick has completed the coursework for a doctorate in finance from Northwestern University.

x) Aulana L. Peters (since 2002): Retired Partner, Gibson, Dunn & Crutcher LLP

(1) Began as an associate at the law firm Gibson, Dunn & Crutcher in 1973 and became a partner in 1980.
(2) Served as commissioner of the SEC from 1984 – 1988 and several accounting and finance committees throughout her career.
(3) Also serves on the board of directors of Northrop Grumman Corporation and 3M and is a member of the Mayo Clinic Board of Trustees.
(4) Graduated from the College of New Rochelle with a degree in Philosophy and from the University of Southern California in Los Angeles with a juris doctorate.

xi) David B. Speer (since 2008): Chairman and Chief Executive Officer, Illinois Tool Works Inc.

(1) Has held chairman position and CEO since 2006.
(2) Began with Illinois Tool Works in 1978 and held several positions before obtaining an executive position.
(3) Also serves on the board of directors of Rockwell Automation, Inc., and the board of trustees of Northwestern University in addition to several councils, clubs, and committees.
(4) Graduated with a bachelor’s degree in industrial engineering from Iowa State University and an MBA from the Kellogg School of Business, Northwestern University.

xii) Summary

(1) Although very diverse in backgrounds and ethnicity, Deere may consider including more women on the board and perhaps appointing an employee as a member for employee representation.
3) **Internal Environment: Strengths and Weaknesses**

a) **Corporate Structure: Top Management**

There are five (5) divisions with forty-five (45) executive positions; though all play an important role in John Deere’s business development, for the scope of this audit only the Corporate executives are listed.

1. Samuel R. Allen: Chairman and CEO
2. James M. Field: Senior VP and CFO
   - Position held since 2009; advises division presidents and CEO on key strategic growth and financial matters and manages the company’s worldwide financial and planning functions.
3. James R. Jenkins: Senior VP and General Counsel
   - Position held since 2000; he is the Chief Legal Officer and is responsible for the Patent, Law, Center for Global Business Conduct, Public Affairs, Corporate Communications and Brand Management Departments.
4. James H. Becht: Deputy General Counsel, International
   - Position held since 2008; leads law services that support international operations and growth initiatives.
5. John Dalhoff: VP and Comptroller
   - Position held since 2007; responsible for worldwide accounting tasks.
6. Frances B. Emerson: VP, Corporate Communications and Global Brand Management
   - Joined Deere in 2005; has several responsibilities including brand management communications, community relations, philanthropy, and other external and internal communications.
7. Jesus Gonzalez: VP and Chief Compliance Officer
   - Position held since 2011; responsible for directing the Center for Global Business Conduct and to improve compliance endeavors across the company.
8. Michael A. Harring: VP and Deputy General Counsel, North America
   - Position held since 2008; directs the supporting law services for North American operations.
   - Position held since 2003; directs the company’s global tax structure.
10. Mary K. W. Jones: VP, Global Human Resources
    - Joined John Deere in 1997 and became director, Human Resources Global and Regional Deployment in 2009 which she now is responsible for leading.
    - Position held since 2011; responsible for the development of negotiation strategies and administration of collective bargaining agreement strategies.
12. Luann K. Rickert: VP, Internal Audit
    - Position held since 2011; responsible for the internal auditing of John Deere worldwide.
(13) Charles R. Stamp, Jr.: VP Public Affairs Worldwide  
(a) Position held since 2002; leads the management of government and public affairs worldwide.

(14) Patrick W. Webber: VP, Information Technology  
(a) Position held since 2011; responsible for information technology globally.

(15) Marie Z. Ziegler: VP and Treasurer  
(a) Position held since 2010; responsible for treasury and investor relations globally.

(16) Gregory R. Noe: Corporate Secretary and Associate General Counsel  
(a) Position held since 2008; responsible for corporate governance and regulatory/legal matters concerning financial transactions and SEC filings.

(17) Summary  
(a) As noted in the February 2012 GMI Analyst Report on Deere & Company, a lack of separation between CEO and chairman is a red flag as there is no partition between the board and executive officers. A recommendation would be to create this separation and minimize any conflict of interest of insiders being on the board by disallowing the CEO to also act as Chairman of the Board. As an example of good corporate governance, there should be every attempt at separating board members and executive officers.
b) **Corporate Culture** (www.deere.com/)
   
i) John Deere explicitly states that the company “embraces diversity and inclusion” (www.deere.com/) which seems to align with their top management and board members in addition to employees. Deere has established several employee resource groups (ERG):
   1. African American ERG
   2. Hispanic ERG
   3. Asian/Pacific Islander ERG
   4. Multi-Cultural Network ERG
   5. New and Experienced Organizational ERG
   6. WomenREACH ERG
   7. LGBT ERG

   ii) John Deere supports several minority educational organizations in addition to other educational initiatives that focus on science, technology, engineering, and mathematics.

   iii) John Deere expresses the importance of diversity in their supply chain as well, making efforts to ensure that these businesses align with Deere’s regard for cultural diversity.

   iv) John Deere has strong mentoring, leadership, and career advisor programs. They often appoint mentors to employees who have entered into new positions and to assist in leadership development. In addition, they have trained career advisors to assist in navigating employee career paths.

   c) **Corporate Resources** (www.deere.com/)
   
i) **Marketing**

   1. The majority of Deere’s marketing is in support of their retailers who are independently owned. They seek out marketing professionals that can create and execute a marketing plan from beginning to end and who works well independently and in a team environment.

   2. John Deere is aggressively targeting foreign markets as they see increasing populations driving agricultural production which they consider to be a great global opportunity. Global marketing has become the key focus to Deere’s marketing strategy.

   (a) Deere’s largest competitor, Caterpillar, has almost 2x the market share due to its international presence. Focusing on global developing markets is a sound strategy for Deere as they hold more market share in agricultural equipment, whereas CAT holds more primarily in construction.

   3. Deere bundled selling expenses with administrative expenses on their 2011 income statement and it shows that their percentage to net sales decreased from about 13% in 2009 to approximately 10% in 2011 (Deere 2011 Annual Report, downloaded from www.deere.com/). However, Deere spent $163 million on
advertising in 2011, $154 million in 2010, and $175 million in 2009 which is over a 7% decrease in advertising expenditures over the 3 year period. This does not align with the implementation of an aggressive global strategy, but this decrease does support the implication of the lowest sales in its industry.

(4) Deere should consider increasing its marketing budget to allow for a much more aggressive marketing strategy to drive sales. In addition, their international focus can really benefit the company, but an increase in U.S./North America focus could prove beneficial as this is where the majority of their sales and overall business is generate; a target consideration for increased marketing is in construction equipment.

ii) Research and Development (www.deere.com/)
(1) Deere’s Research and development expenses increased by 25% from 2009 to 2011 but this is a trend that they have maintained for 10 years. Research and development is an important aspect to the company as well as the industry from both a product innovation standpoint and in adapting to increased regulatory requirements (Deere 2011 Annual Report, downloaded from www.deere.com/).
(2) John Deere states that they invest close to $2 million per day in research and development across product engineering, quality, and manufacturing. They invest in technological advancements of their product lines in addition to sustainable business practices including environmental stewardship (Deere 2011 Citizenship Summary Report, downloaded from www.deere.com).
(a) According to Deere’s 2011 annual report, expenses for research and development activities increased in 2011 in support of new products and engineering engines to meet emission requirements.

iii) Operations and Logistics
(1) Deere & Co. is expanding its global operations, specifically targeting emerging and developing markets.
(a) Deere has announced that they will be building seven (7) new factories in the targeted regions:
   (i) Three in China for construction and large farm equipment in addition to engines.
   (ii) Two in Brazil, of which both will manufacture construction equipment.
   (iii) One in India which will manufacture farm tractors.
   (iv) One in Russia which will produce seeding, tillage, and other agricultural application equipment.
(b) Deere has also built expansions on existing parts centers and constructed new ones in Germany, Sweden, Canada, and Russia.
(2) Deere & Co. is growing its operations in the United States through expansions on their facilities in Waterloo, Davenport, and Des Moines. In addition, they have added over 2,500 new jobs across their U.S. businesses.
(a) As indicated as an important consideration previously, it is critical for Deere & Co. to focus a reasonable share of its strategy on growth in the U.S. and Canada as these regions generate for 60% of Deere’s revenue and 75% of their profit. If John Deere overlooked its North American operations and market due to their global initiatives, they could easily lose substantial market share to their competitors.

(3) John Deere has a very broad supply chain that spans the globe. They have asserted the importance of social and environmental responsibility and the value of diversity throughout their supply chain and have developed a supply chain code of conduct which outlines expectations, implementation processes, and transparency enforcement procedures (John Deere Supplier Code of Conduct, downloaded from www.deere.com/).

(a) Deere & Co. utilizes onsite audits, document submittal and review, and corrective action plans in accordance with its supply chain policy.

(b) Although John Deere has a comprehensive supply chain policy and most likely has a much more descriptive internal manual, they should consider making specific metrics and thresholds available to the public. For example: By what standards will members of their supply chain be held too? By what metrics will they be measured? What are the consequences of non-compliance; or what corrective action will be utilized? These are all valid questions that could be very useful information to sustainability focused investors.

d) Summary of Internal Factors
   i) Strengths
      (1) John Deere has a diverse and experienced executive management team.
      (2) The company has an exceptional leadership/mentoring program.
      (3) Overall, Deere’s business practices align with their core values as demonstrated by their global strategy, research and development efforts, value of diversity, and commitment to stakeholders.
      (4) The company has a very aggressive global strategy with objective and obtainable goals.
      (5) Implementation of socially responsible initiatives and a strong philanthropic culture.
      (6) Comprehensive supplier code of conduct policy that focuses on the importance of safety, behavioral, and environmental issues.
   ii) Weaknesses
      (1) Combining CEO and Chairman positions can be a red flag for business conflicts of interest.
      (2) Low total sales yet a decrease in marketing expenditures.
      (3) Possibly neglecting North American operations and markets with a substantial increase in global market focus.
Publicly available information concerning supply chain expectations and metrics.

4) **External Environment: Opportunities and Threats**

a) **Natural Environment:** (Deere 2011 Citizenship Report, downloaded from www.deere.com/)

   i) **Opportunities**

   (1) Deere has maintained several environmental initiatives for almost 40 years, but their total waste, hazardous and non-hazardous, increased from 2007 – 2009. However, both have decreased as of 2010 and Deere reports that they have increased efforts to decrease them even more.

   (2) Water usage has steadily increased since 2008. This is a great area of opportunity as Deere is planning their expansion into developing global markets, some of which are already experiencing severe water shortages (India and China for example).

   (3) Deere’s R&D is exploring more efficient engines with lower emissions such as hybrid drive trains, but this is an expanding area of opportunity which aligns with their global marketing strategy.

b) **Societal Environment**

   i) **Threats**

   (1) Although stricter regulatory requirements are created for the benefit of society, tighter regulations do pose a business risk to Deere as well as their competitors if enacted too quickly. From the standpoint of innovation, this is a great opportunity for Deere to develop advanced technologies and products that support overall sustainability; but if new regulations are implemented too quickly without time for the industry to adjust, it could easily cause financial hardship if not business failure.

   (2) Geopolitical movements can derail Deere’s global expansion strategy if not aligned or compliant to the successful agenda. The more exposure to global markets also means more regulations, compliance policies, and foreign interests that must be considered and integrated into their business model.

c) **Task Environment**

   i) **Opportunities**

   (1) John Deere’s further expansion into global markets provides the company an opportunity to cultivate growth in its weaker divisions, such as the construction and forestry division. It also helps Deere to establish a greater international presence and stronger branding opportunities outside of North America. This creates an opportunity for Deere to leverage itself even more when negotiating contracts with international suppliers.

   ii) **Threats**

   (1) Although it would be very difficult for new companies to enter into the heavy machinery/equipment industry, existing companies who already maintain international relationships could make it very difficult for Deere to have a smooth
transition into certain markets. Caterpillar has twice the market share as Deere, largely due to their already established presence in regions such as China in addition to their core production being construction equipment.

(2) Deere produces top quality equipment that is also high priced. The markets that they are targeting may not have the capital to support purchasing existing Deere products, which would require Deere to decrease prices (and therefore profit) significantly or begin producing lower quality equipment to keep margins.

(3) Deere will have sizeable challenges in international markets including but not limited to labor, government, regulatory, and building trust and collaboration with the local residents where they build their plants. Environmental issues will need to be addressed with local residents in addition to assuring sustainable business practices that will benefit the communities.

d) Summary of External Factors
i) With Deere’s global strategy commencing, the most critical focus should be on relationship building. Deere will obtain new stakeholders with each market that they penetrate and these stakeholders will require attention. In addition, Deere has the potential to be viewed and criticized by many as off shoring and this could cause a rift in domestic interests if not handled with candor and transparency. Deere should continue to build their domestic relationships and demonstrate their continued commitment to North America.

ii) Deere should consider several factors when entering into developing markets as resources and capital may not be as available as they are in the U.S. In addition, cultural differences, governmental policies, environmental regulations, etc., all need to be addressed prior to initiation.

iii) Deere will be competing with peers, such as Caterpillar, who already have an established presence in the markets they are targeting. In addition, Deere will also be competing with local equipment manufacturers and should consider the impact on those businesses, and the local economies, before progressing further; perhaps exploring partnerships is an option.

5) Strategic Alternatives and Recommended Strategy
a) Strategic Alternatives
i) Lower the dividend payout and focus on increasing earnings from sales growth. A pro is that this will provide more transparency into actual value in addition to generating more sales. From an investor standpoint, this shows a strategic yet understandable plan and provides confidence in growth opportunity. A con is that investors who seek income will not appreciate the cut in dividend and may spark a sell off.

ii) Acquire companies, both domestically and globally, with innovative technologies which will then either reduce expenditures on research and development or that will provide the ability for larger steps in R&D. A pro is that the technology has already been (or closely) developed and the acquisition can be accounted as an asset. A con is
that the innovation is not Deere’s and the acquired company has the potential to become a liability.

iii) Refocus on North American sales and scale back on entering international developing markets. A pro is that risk associated with entering new markets, as mentioned throughout this audit, is decreased and growth can be focused more clearly in familiar regions. This also benefits the domestic economy more and off shoring would not be as much of an issue. A con is that Deere may not incur the growth it needs to even maintain market share and its competitors will have a significant advantage in the future. Also, Deere has developed (and continues to develop) compelling sustainability initiatives that other global regions could benefit from.

iv) Require a separation of CEO and Chairman of the Board positions. A pro is that it would eliminate conflicts of interest that would have the potential to arise with one person holding both positions. A con is that you lose that singularity of one experienced person who knows the company inside and out controlling both positions which can make decision making much more efficient.

b) **Recommended Strategy**

i) Keep the dividend as is but strengthen the sales strategy, especially now with the implementation of the global strategy. This way both income and growth investors are appeased and a significant amount of opportunity is generated with the support to back it up. Sales are vital for companies in such cash intensive industries such as the machinery industry. Do not raise the dividend until projected earnings and sales have increased enough to warrant dividend growth.

ii) Avoid divestitures in the future unless it is found to be necessary to align with the company’s mission and objectives. This benefits the company by providing accounting transparency and eluding timing issues. Only acquire companies with innovative technologies that Deere views as a solid long term investment in addition to aligning with their mission and core values.

iii) Continue to aggressively pursue the global strategy but be very transparent and focus on building relationships. Make Deere’s presence, mission, and core values well known in the new regions and network with local businesses to explore partnerships that can be beneficial for the local communities. In addition, create a new domestic strategy that will emphasize Deer’s commitment to the U.S. economy and the local communities that Deere already impacts. This can be structured as a marketing campaign and as a sustainability/philanthropic initiative.

iv) Require a separation of CEO and Chairman of the Board positions. Although it is largely accepted by many corporations, all efforts should be taken to reduce conflicts of interest within a company. This is a system of checks and balances to ensure corporate responsibility at all levels and the fewer safeguards that are in place, the more opportunity for unsustainable business practices or corporate corruption.

v) Develop a more aggressive water resource and waste management plan as these are two areas of environmental weakness for Deere. Production industries are water
intensive and create a large stream of waste, but stricter regulations, social responsibility, and environmental stewardship requires companies to become more efficient in these areas, not regressive. One recommendation is to seek assistance from outside environmental/sustainable consulting firms. This approach will bring fresh perspective and new solutions that will inevitably lead to Deere becoming an industry leader in sustainable business practices.

6) **Implementation**
   a) The recommendations discussed throughout the audit are comprehensive in nature and do not target specific divisions. Therefore the board of directors would be responsible for the implementation, and executive management in conjunction with their respective divisions would be responsible for execution. These are companywide recommendations that align with Deer’s core values, mission, and complement their current global strategy. Increased sales are a top priority as this factor alone would have a trickledown effect in improving other areas of concern.
   b) Plan development would be the responsibility of third party consultants and/or task committees formed by the divisional leaders in those divisions that will be impacted. In addition, all task committees will meet as a super committee to coordinate with other impacted divisions. Outside consultants will provide expertise in their respective fields dealing with environmental, operational, logistical, and financial issues both domestic and foreign. The consultants will also be contracted to ascertain solutions and facilitate the committees once problem areas are identified; they in effect would be a partner throughout each process from beginning to end.

7) **Evaluation and Control**
   a) Many of the recommendations work in conjunction with existing strategies and can be benchmarked accordingly.
   b) Separation of CEO and Chairman positions should be given at least a two year implementation period to allow time for execution of already planned strategies and a smooth transition for the company and impacted individuals.
   c) Environmental issues should be addressed immediately, with outside consulting firms being identified and contracted within three months.
   d) An aggressive sales strategy should be developed and executed within six months enlisting the services of outside consultants and marketing firms that operate worldwide.
Appendix

Table 1. Financial Ratios for Deere & Company

Figure 1. Profitability

Figure 2. Liquidity

Figure 3. Financial Leverage

Figure 4. Efficiency

Figure 5. Book Value/Common Share
Table 1.
Financial Ratios for Deere & Company

<table>
<thead>
<tr>
<th>Gross Profit Margin</th>
<th>Return on Equity</th>
<th>Profitability</th>
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<th>Return on Investment</th>
<th>Net Profit Margin</th>
<th>Financial Leverage</th>
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<td>0.04</td>
<td>0.02</td>
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<th>Long-term Debt to Net Working Capital</th>
<th>Total Debts to Assets</th>
<th>Liquidity</th>
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<th>Cash Turnover</th>
<th>Days' Sales in Inventory</th>
<th>Additional</th>
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<tr>
<td>16.75</td>
<td>14.90</td>
<td>11.39</td>
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</tbody>
</table>
**Figure 1.** Profitability

**Figure 2.** Liquidity
Figure 3. Financial Leverage

Figure 4. Efficiency
Figure 5. Book Value/Common Share