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# EDITED TRANSCRIPT

CAT - Caterpillar Inc. Teleconference with Analysts & Investors: Across the Table

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**OVERVIEW:**

CAT provided an update on the Across the Table Initiative.



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## PRESENTATION

**Operator**

Good afternoon, ladies and gentlemen, and welcome to the Caterpillar conference call on Across the Table. It is now my pleasure to turn the floor over to your host, Rich Moore, Caterpillar Director of Investor Relations. Sir, the floor is yours.

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**Rich Moore** - *Caterpillar Inc. - Director of IR*

Thank you, John. Good afternoon and thank you for joining us. I'm Rich Moore, Caterpillar's Director of Investor Relations. On the call today I'm pleased to have Rob Charter, Caterpillar Group President with responsibilities for customer and dealer support. We also have three distinguished guests with us representing Caterpillar dealerships from across the globe. Rob will introduce these gentlemen later in the call.

I have a few housekeeping items before we get started. This call is copyrighted by Caterpillar Inc. Any use, recording, or transmission of any portion of the call without the express written consent of Caterpillar is strictly prohibited. There's a copy of today's presentation posted in the investor section of our Caterpillar.com website in the section labeled events and presentations. We will also post a copy of today's call transcript in the same location on our website.

Today we'll be discussing forward-looking information that involves risks, uncertainties, and assumptions that could cause our actual results to differ materially from forward-looking information. Additional information concerning factors that could cause our results to materially differ could be found in the risk factors section of our Form 10-K filed with the SEC in February of this year and also in the forward-looking statement section in today's presentation.

Okay, so today is the first in what we hope to be a series of conference calls focused on specific initiatives Caterpillar has undertaken over the past couple of years. As you know, we are kicking things off today with a look at Across the Table, a joint initiative with Caterpillar and our dealers that was introduced at ConExpo in March of 2014. We are about 18 months into this project, and we felt it was time to provide an update on our progress.



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Before I turn the call over to Rob and the three dealers, I'd like to say a few words about Across the Table and how we plan to talk you about progress going forward. At our Analyst Day event at ConExpo, you may remember that we quantified a potential range of top-line growth due to this initiative of between $9 billion and $18 billion. As we described then, this range was based on a set of market-based assumptions, including a then-current view of dealer performance rankings across several categories and the size of the market opportunity for the industries we serve around the world. The concept was that if bottom-quartile dealers improved their performance and moved up to the mid-point of the dealer rankings, this could represent a $9billion sales opportunity. If all dealers moved to the top quartile, it could represent an $18billion opportunity. The amounts discussed at that time were meant to provide context to the significance of the initiative. And the importance is still directionally correct today, even though some assumptions have improved or declined over the last yearandahalf.

Since announcing this initiative, we haven't provided much of an update on progress, and that's the intent of today's call. Across the Table is all about leveraging best practices to identify, build, and strengthen our collective capabilities needed to meet the needs of our customers. As we go through business cycles, and the size of the industry opportunities change, this can have a big impact on the total dollar amount of benefits realized over time. What we are going to talk about today is progress updates and examples of the various work streams with the dealers, so you get a perspective of where we are in the process and how this progress is helping us serve customers better and win in the marketplace.

One final comment: we have about 30 minutes planned at the end for Q&A, so just a few words on this. Please keep the questions today focused on the Across the Table initiative to make best use of everyone's time. Also, we know there is a lot of interest for Q&A, so I'd like to remind everyone to please ask one question and maybe a short, related follow-up if needed, and then please get back into the queue. So now I'd like to turn the call over to Rob.

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**Rob Charter** - *Caterpillar Inc. - Group President*

Thank you, Rich, and good afternoon to everyone and thank you for joining us today. Today we're going to talk about Caterpillar's Across the Table initiative. Across the Table, simply stated, is an initiative grounded on a legacy of success built by Caterpillar and dealers over 90 years. That legacy defines the partnership we provide to our customers with a local business relationship in the culture and language of their locale, combined with the products and solutions from the global leader in manufacturing and technology. For nine decades, it's been an unbeatable combination, but the simple fact is the world is rapidly changing and our distribution system faces challenges. What has always been one of our biggest competitive advantages must adapt to meet our customers' changing needs. Across the Table is an initiative to work in close partnership with our dealers, which is transforming our distribution organization to ensure it remains the competitive advantage it has always been. For those of you following the presentation, I'm moving on to my second slide.

So let's talk about the dealer network. The CAT dealer network has a rich history and has been an integral part of our operation since the formation of the Company. They are long-standing members of the community, and the average tenure of CAT dealers is over 40 years. Most CAT dealers are independently owned, locally operated businesses and benefit from strong, long-standing customer relationships. As I move to my third slide, I want to get back to the Across the Table initiative. As Rich said, the initiative was launched with our global dealer principals at the worldwide dealer meeting in Nashville in March 2014. We immediately went to work with our dealers to define the roles, responsibilities, and expectations to elevate dealer performance in serving all customer segments. We did this with a number of high-level goals in mind. And what we wanted to do was improve our overall dealer performance; improve our competitive advantage; drive significant growth in field population; provide a consistent, outstanding customer experience, be easy to do business with, and serve multiple customer climates through our dealer network.

Let's just move to slide 4. Caterpillar and CAT dealers worked together closely for over two years to create this Across the Table strategy. Over 80 dealers participated as project pilot dealers, advisers, or subject matter experts; literally thousands of Caterpillar and dealer employees have been involved in this effort. It is comprised of multiple work streams focused around four key objectives, to transform our collective distribution capability. They are strengthening the Caterpillar and dealer distribution model, enhancing customer focus, achieving superior economics for Caterpillar and the dealer, and seizing opportunities and mitigating risks. It is all founded on a consistent economic framework, which we call our dealer growth and profitability plan, which validates and provides a business case for recommended actions.

Here's one example of what we're trying to drive with technology-enabled solutions work streams. Let's say a customer receives a call from his dealer about one of his machines enrolled in our equipment management solutions, where there's been alerts indicating a drop in fuel pressure.



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Service is scheduled and it's determined the fuel filter needs to be changed, possibly preventing a more expensive repair due to damage to the injectors. This saves the customer money and reduces down time, which translates into customer loyalty. Another example from the dealer data and customer analytics and past logistics work streams would be using analytics to tell the [deflated] machines in Empire's territory is going to require overhauls, and that a dealer in Texas has excessive inventory of the required repair parts to meet the time requirements of the repair.

We'll help ensure we have the right parts at the right time at the right place. Not only with this help our customers' loyalty, but take distribution costs out of the entire chain. All of the work streams are interconnected and interdependent, and no project stands alone. That's a critical element of Across the Table. What we have found is that Across the Table has allowed us to execute the individual work streams at a much quicker pace. The simultaneous execution of each project helps ensure overall success. We won't have time to discuss all the work streams because there's over 10 of them, but we will discuss a few of them. So let's go to the next slide, number 5.

We have a robust governance structure in place to ensure we are making progress towards achieving our goals. We have established a worldwide dealer score card and have mutually agreed growth plans in place with each dealer. This ensures that we are focused on the right things to seize the key opportunities. Dealers are responding well to the challenge to raise the bar on performance. Caterpillar certainly has opportunities to improve as well. This effort has helped dealers recognize that as partners, both partners must improve for both to succeed. It's all about consistency, accountability, and teamwork.

I'd be remiss if I didn't also mention our Across the Table dealer advisory group. Our dealer advisory group is made up of 15 of our very best dealers from all over the world. They provide a unique perspective, feedback, and leadership as we continue on this journey. Their input has been invaluable. They are helping us ensure continued alignment and progress with Across the Table. This is a good segue in our next segment, slide number 6.

We're really privileged today to have three of our current dealer advisory group members here with us today to discuss their perspective on Across the Table. Joining us are Jeff Whiteman, President and CEO of Empire, Arizona; Clive Thomson, the CEO for Barloworld Limited in South Africa; and Lawrence Poh, Chief Executive Officer for Lei Shing Hong based in the People's Republic of China. Thank you, gentlemen, for joining us today. For those following along, I'm now moving to slide number 7.

Like I said earlier, we don't -- we won't be able to cover all the work streams, but we would like to highlight a few key ones. So let's start with parts logistics transformation. Our collective parts footprint is unmatched in the industry. Caterpillar alone has 21 parts distribution centers, a dealer has over 2,000 branches, and we truly have a global presence. But we have opportunity to make the system even better. Here's what we are addressing this work stream. Our parts distribution process has inefficiencies which need to be addressed through warehouse network optimization, algorithm enhancement, better entry points closer to the supply chain, shipping, et cetera. In addition, customer-centric visibility for parts demand addressing slow moving parts, service-level optimization can create significant efficiencies, reduce redundant inventory at dealers in CAT, while improving customer satisfaction. We need a long-term vision, plan, and dealer buy-in to customer satisfaction. Bringing the CAT and dealer systems into one global integrated network to provide better visibility and reduce redundant inventory pools between Caterpillar and the dealer.

Clive, can you give us your thoughts on how parts logistics transformation work stream is going from your perspective, what's working and where there are still opportunities.

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**Clive Thomson** - *Barloworld Limited, South Africa - CEO*

Thank you, Rob. Yes, this has been a very exciting work stream from our perspective. If I just step back a little bit, essentially for us, the Across the Table process has been one about making sure that the foundational dealer capabilities are in place and world class. And then also about taking on certain game-changing capabilities to make sure we're able to differentiate ourselves against the competition in the marketplace. And one of the most exciting, from our perspective, is the parts logistics transformation. Just to give you a practical insight into how traditionally we've worked, is that both Caterpillar and Barloworld have had parts distribution facilities in Johannesburg, and in fact, pretty close to each other at our major branch in Isando. Those facilities don't talk to each other, and therefore, we don't have automatic online insight into what is stocked in the Caterpillar distribution center and what is stocked in the Barloworld distribution center. And I think this was exacerbated following us acquiring the Bucyrus distribution in Southern Africa because we inherited a number of additional parts centers.



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What the plan is, and what we're working on at the moment, is one complete integrated network where the major inventories for the whole of the Southern African region will be held in a single parts warehouse in Johannesburg. We will have, therefore, complete visibility from both a Caterpillar and the dealer side as to what is contained therein. And we'll ensure that our satellite branch distribution throughout Southern Africa, that includes the facilities in Mozambique and Zambia and Angola and Botswana and Namibia, are also linked carefully into that overall distribution infrastructure. And we see some significant benefits coming out of this, including improved customer service and that's through our on time and full measure. And in terms of our simulations, we've identified an 8% on-time and full improvement opportunity.

We also see inventory reduction benefits. Again, in terms of the simulations, we've carried out -- we are envisaging a 10% inventory reduction across the network. And we also see significant cost-reduction opportunities in terms of transport and logistics. And again, in terms of the simulations, we believe in our territory, we'll be able to achieve a 7% overall cost reduction through this process. So the real benefit is enhanced customer service, at the same time as improved asset utilizations and cost reductions for both Caterpillar and the dealer. And this is very exciting for us, and of course if we're able to do it well and improve customer service, we also see opportunities for further improving both our parts market dealership in our territory, but also our sales of new machinery on the back of the after-market support and customer service benefits that will come through from this transition.

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**Rob Charter** - *Caterpillar Inc. - Group President*

Thank you, Clive. It's a really good example of the partnership, I think between, our dealers and Caterpillar, and how we work closely together and really improve our collective performance for our customers. It's a really exciting project.

I'd like to move to slide number 9 and move to talk about distribution aspect of technology-enabled solutions. Market trends like technology-enabled solutions is becoming increasingly critical. Customers, dealers, and manufacturers all derive value from technology-enabled solutions, and we need to take advantage of this trend. Our competitors and other technical providers have been moving in this space, and we need to act and stay ahead of the trend and provide solutions for our customers. One of the focuses of this work stream is making sense of the intermingled role of Caterpillar and dealers in delivering these services. This initiative is working to clearly define what is needed from the dealers and to develop a road map for getting there.

Another key element of this project is to drive adoption of technology-enabled solutions' IT ecosystem, which gets data back to Caterpillar and CAT dealers so we can apply world-class analytics on it, create value to CAT and dealers and their customers all benefit from. Lawrence, you've been heavily involved in this. Can you give us your take on why this is important and how you think this work stream is progressing?

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**Lawrence Poh** - *Lei Shing Hong Machinery Co. - CEO*

Well, it's absolutely important for us to get into the technology-enabled solution, because customers are expecting us to do more in this space. In China, a large pool of our customers' machines are now connected. We've (inaudible). A majority of these customers have actually subscribed to our EM solutions. A smartphone is becoming a popular device for Chinese customers to communicate and solve information. So we actively developed a mobile app that's apart from Caterpillar for our customers, for them to track their product location, equipment utilization, performance information. We also provide SOSanalysis reports, and also we get our customers to submit their repair request to the app. We have built up a dedicated team to support the TES solution -- TES initiative. As an example, we created a CMA, a conditional monitoring advisory role in every province we serve. The CMA supports our front-line customer service rep in providing proactive service notification of every connected asset to WeChat. I would say that within our part of the world, and WeChat is a popular social media platform used in China.

We also get assisting, active, and non-active customers connected to our WeChat platform. Once connected, we can communicate easily with them in providing information on Caterpillar products and services and advising them and promote our full range of dealer services, which include training, rental, used equipment, auctions, et cetera. We also start to promote online parts service aggressively, and the results achieved to date is rewarding. We start to share more data with Caterpillar. It is a work in progress, but we are very sure through data analytics we can create more value for our customers and also enhance dealers' operations. Rob?



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**Rob Charter** - *Caterpillar Inc. - Group President*

Thank you, Lawrence. That's really good. For those following on the presentation, I'm just moving to slide 11. I'd like to finally talk about eBusiness transformation. This is a big subject, obviously, and an important opportunity. EBbusiness is a fundamental aspect of all sales, marketing, and support activities. It provides information and education through websites, electronic catalogs, and streaming videos. It enables transactions by helping customers to configure products and product bundles, and deliver services via online support systems. It's also a cost-effective medium to reach out to a disbursed customer base, generate leads, and build customer relations. Furthermore, the Internet creates transparency, which lowers the barriers to entry to competitors. We are working to accelerate our eBusiness platform and execute an integrated strategy across the customer experience life cycle. We've made good progress and we've built a world-class foundation, but reaching the next level requires unprecedented collaboration and connectivity across all industries and with each of our dealers. Jeff, you've got a lot of experience in this. What's your take on what we've done and what we still need to do?

**Jeff Whiteman** - *Empire Arizona - President and CEO*

Thank you, Rob. Before I make a comment on what's been done and what still needs to be done, let me just make a quick comment about Across the Table. It is clearly the right initiative at the right time. And never before have I seen an initiative at Caterpillar create more positive energy, especially in the dealer community. It has also been very effective in driving all of the dealers to raise their game, and it has allowed Caterpillar and the dealers to focus on what we really need to be focusing on today, to meet the evolving needs of our customers, so it's been fantastic.

Regarding eBusiness, that is not fully implemented. It will definitely move us into a leadership role for predictive marketing, solution selling and end-to-end transactions and much more. You've already done a great job in a couple foundational areas. First, CAT.com has evolved into a strong representation of the brand and the products and services we represent. Second, we're excited about the next generation of parts. CAT.com, which will take the customer experience to an entirely new level and significantly reduce our collective costs. Third, we're beginning to connect some of our customers' purchasing systems to our own systems. Obviously, this drives efficiency for CAT, the dealers, and most importantly for our customers.

Now regarding what needs to be done, we've got to move faster. We have to be more nimble. We need to deliver applications that create a superior customer experience, and those solutions have got to be mobile. And we need to be much better at taking massive amounts of data from many different sources and making it meaningful by applying the best analytics and data science against that information. And then we've got to innovate with a purpose. I know all these things are on our radar screen but we can't lose sight of them. We need to continue to drive with everything we have towards them, and really our ultimate goal is to help our customers be more successful, drive more efficiency throughout our distribution chain, and lower our collective costs.

**Rob Charter** - *Caterpillar Inc. - Group President*

Thank you, Jeff. I want to thank Jeff, Lawrence, and Clive for providing those great insights. I'm sure there will be plenty of questions to them. In summary, I think our dealer network is truly a great competitive advantage. Our customer's success is our dealer success, and their success is ours. We can't win without them. While Across the Table is focused on raising the bar on the performance of our dealer network, it's really about making sure that the distribution network is built to meet the changing needs of our customers well into the future. We still have work to do but we feel like we're making good progress towards our 2018 goals. And finally, and maybe most importantly, we're also doing this in close partnership with our dealers. We're in lock step and focused on improving our collective performance to serve our customers. With that, I guess, Rich, we'll open up for some questions.

**Rich Moore** - *Caterpillar Inc. - Director of IR*

John, we're ready for the Q&A portion of the call.



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## QUESTIONS AND ANSWERS

**Operator**

Okay. Thank you. Ladies and gentlemen, the floor is now opened for your questions.

(Operator Instructions)

Okay. And our first question is coming from Ted Grace. Please announce your affiliation, then pose your question.

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**Ted Grace** - *Susquehanna Financial Group / SIG - Analyst*

Thank you. It's Susquehanna.

Thank you for hosting today's call, Rich and Rob. Thank you to the other gentlemen for participating.

Two related questions. Maybe first, Rob, could you talk about from the standpoint of a timetable for implementing Across the Table where we sit. I know you mentioned launching this March of 2014 and the initial goal target was 2018. But if we were to think about just where you expected to be in August of 2015, are we in the second or third inning, are we in the fifth inning from an implementation standpoint.

The second question I just wanted to ask, and maybe it's more applicable to the dealers. You talked about the four key objectives. I was just wondering if you could talk about where you sit in the most important ones so far, and which has been the most impactful to you, whether it's as a measure of those four measurements or between construction industries or resource industries or E&T, and that would be great.

Thank you so much.

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**Rob Charter** - *Caterpillar Inc. - Group President*

Okay. Let me, Ted, let me answer the first question, and then I'll open it up and see if my three distinguished colleagues here would like to answer or contribute to the second. If you think about the timetable for this initiative, which is, as we've talked about a very broad initiative, we really started to work on this in 2012 internally. And we talked a lot through the process of how do we improve our collective performance between us and our dealers and serve our customers better with the changing world.

That took a lot of work, and as I said, we had over 80 different dealers contributing to that. So it was a vast body of work which was announced in March 2014. So that was the first time that we actually rolled out to our dealer principals at a worldwide dealer meeting what we wanted to do. In my mind, I think we spent most of 2014 identifying and refining the strategy, working with our dealers on their roles and responsibilities and setting up what I would call the processes to execute Across the Table initiatives.

So 2015 has really been the year that we've said: this is the year we need to execute. This is where we really need to put the rubber to the road and really execute what we planned up to 2014.

We're really pleased of that we've got 10 work streams; we're working well through all of those work streams. A big part of that was working with our individual dealers on our growth plans, and then identifying not only where we wanted to be in terms of our performance by dealer by 2018, but then what are the specific plans across the 10 work streams to achieve that?

Those work plans were plans between Caterpillar and our individual dealers with responsibilities for both parties. So I'd say we're eight months into the execution phase of this. Again, we're really pleased with how that's going. Our dealers are excited. In fact, we had our dealer advisory meeting in the last two days with our 15 dealers we talked about earlier, and I think we're very encouraged about the progress we've made so far.



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Having said that, we've got a long way to go. We're really driving this. We're clearly focused on achieving our goals and our growth plans by 2018. But 2018 really is a line in the sand. This is never going to be a program that just finishes, and we will always have to adapt and grow our performance. And so, 2018 is certainly a point in time, but this initiative will continue beyond that as well.

So on your second question, I might ask any of them. Clive, maybe you want to just comment on how you feel it's going and what's some of the more important work streams for you.

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**Clive Thomson** - *Barloworld Limited, South Africa - CEO*

Yes, I think perhaps the one that we kicked off with was the dealer growth and profitability aspect, where we looked at growing market leadership on product, as well as our market leadership position on parts. And we worked with some external consultants, which were engaged by Caterpillar to identify in each of our key regions in Southern Africa what were the biggest opportunities by region and what were the biggest opportunities by product category including mining, construction, and power systems.

And then also by region, we looked at where the biggest opportunities were by customer in terms of incremental part sales. And we worked over a period of three to four months, identified a number of key action steps, and those have been aggressively built into our growth plans for 2018.

So I would say to date, particularly, because certain of those overall industries are under pressure at the moment, particularly mining, some of the opportunities for improvement in market leadership position by product and within the product support arena are critically important for us. And I would say we've made some significant progress to date, and we've got some aggressive plans in terms of our growth plan through 2018. So for me, that's the area which we tackle first and have got most traction on.

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**Rob Charter** - *Caterpillar Inc. - Group President*

Thank you, Clive.

I think the interesting thing about the DGAP, or the dealer growth and profitability project was it was always going to be one of the first ones out of the blocks, in terms of coming up with a strategy and then driving some results through it. Because it was a fairly intense deep dive into the opportunities by dealer, and so the ability to take those opportunities and then drive them to results was always going to be one of the earlier ones. Some of the other work streams have a little longer tail on them in terms of the preliminary work that needs to be done and put in place before you see the results.

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**Jeff Whiteman** - *Empire Arizona - President and CEO*

This is Jeff Whiteman. As I mentioned earlier, I really do believe these are all the right initiatives to be working on at the right time. And as I try to prioritize which one's more important than the other, I can't do it because they're all so interrelated, they're so dependent upon one another, we really need to execute all of these correctly.

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**Ted Grace** - *Susquehanna Financial Group / SIG - Analyst*

Maybe Clive, the comment you made about mining customers where there's a lot of pressure, could you talk about how you think the program itself has helped you capture more market share in the after-market or the service component or mitigate the pressures? And then I'll jump back in queue. I apologize to add that last one.

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**Clive Thomson** - *Barloworld Limited, South Africa - CEO*

Yes. Well I think everybody is aware the global mining cycle is under pressure at the moment, and therefore, most of the big global mining companies are cutting back on levels of capital expenditure. In that context, it's been very, very important for us to deliver excellent customer service to those mining companies and to be on top of our game in terms of component rebuilds, maintenance work, and our part sales.

I'm very pleased to report that during the course of 2014, our financial year, our parts sales to our major mining customers in Southern Africa were up about 14%. And I do attribute a large part of that growth to the refocused customer account plans we had with some of the big global mining houses that operate in our territory.

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**Rob Charter** - *Caterpillar Inc. - Group President*

The last comment I want to make and I want to just re-emphasize what Jeff said is, one of the reasons we think that Across the Table is different from what we've done in the past is we do see that interrelationship between the initiatives. Some of these initiatives we've tried before and haven't been as successful. What we're seeing by doing a simultaneous lift on these at once, they really do depend on each other's success and I think that's proving out as we go forward.

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**Rich Moore** - *Caterpillar Inc. - Director of IR*

Okay. Maybe we can move on to the next question.

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**Operator**

Okay. Our next question is coming from Ross Gilardi. Please announce your affiliation, then pose your question.

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**Ross Gilardi** - *BofA Merrill Lynch - Analyst*

Hi, it's Ross Gilardi from Bank of America Merrill Lynch. Good afternoon, gentlemen.

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**Rob Charter** - *Caterpillar Inc. - Group President*

Hi, Ross.

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**Ross Gilardi** - *BofA Merrill Lynch - Analyst*

This is probably more of a North American focused question, probably for your dealer in Arizona. I think one of the things that CAT wanted to focus on with Across the Table was rental. And I'm wondering how do you feel? And maybe just from CAT, how are the CAT dealers being scored on rental performance? What metrics are being looked at to determine if you're making forward progress?

And just more broadly, how does a network of independent dealers compete with the national rental companies who are a lot stronger competitors than they used to be, have national footprints, and broad arrays of equipment?

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**Rob Charter** - *Caterpillar Inc. - Group President*

I'll kick that off, and then I'll pass it over to Jeff for comment.



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I think rental is a very important part of our business. And so one of the first things we decided was can we improve our operational excellence in rental? And we've really worked very, very hard to try and drive best practices across all of our dealerships. We've looked through globally at our dealers and said, what is the best operational and efficient practice we have? And then we've shared that with our dealers across the globe. And we've had about, I think it's around 75% of our dealers have gone through that process now, and we're seeing improved operational excellence.

Two other things we've done I think, which are really interesting in the rental space, which is innovative for us is working with our dealers on two initiatives. One initiative was in Europe, which we call Fast Rent. And we're looking really at helping our dealers pilot a low-cost, Web-based rental service distribution model in Europe, and we're very pleased with the initial work we've done in that space.

And the second, which we've announced previously, was working with a Company called Yard Club, which is a peer-to-peer rental collaboration program or process. And again, we're experimenting in two regions or with two dealers in North America on that as well. So we're really focusing on new and innovative ways of helping in the rental space, but also focusing on how do we get more efficient and more consistent in our performance. Jeff, do you have a couple points?

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**Jeff Whiteman** - *Empire Arizona - President and CEO*

Yes, it's interesting. If you could have been in the room during our last meetings the last few days, it's -- when rental comes up, it's a very hot topic. There's a lot of emotion around that. We all feel pressure, right? Caterpillar feels pressure. We as dealers feel pressure. We have competitive pressure. We have pressure from our customers. The rental market is a tough market.

What Across the Table has allowed us to do is to first benchmark ourselves and then look for how we're going to achieve operational excellence in all levels of our rental operation, not to mention all areas of our business. And how we're able to, because of our collaborative effort with one another, we really get up that curve pretty fast. But we, for example, have been a dealer for 65 years, and we have very deep relationships with all of the customers in our territory. And we -- how we compete with national rental companies is we just provide outstanding customer value and service to these guys when they need machines to make sure they've got the right machines at the right time, and that those machines can operate as efficiently and productively as possible.

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**Operator**

Our next question is coming from Ann Duignan. Please announce your affiliation, then pose your question.

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**Ann Duignan** - *JPMorgan - Analyst*

Good afternoon. Ann Duignan, JPMorgan.

My first question, Rob, is really back to you. And it's can you define for us maybe what is a top quartile CAT dealer, how do you measure that? Maybe you're not able to share the exact specifics, but at least what buckets, is it revenue per employee? If you could list some of the metrics that you're using to define top quartile, that would be helpful.

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**Rob Charter** - *Caterpillar Inc. - Group President*

One of the things -- yes, I'm happy to do that and nice to talk to you, Ann.

One of the things we did, which I think was really beneficial, it was in about 2009, we had an enterprise alignment. And it was first time in our history where we actually had our distributional organizations for Europe, Africa, and Middle East, Asia-Pacific, and the Americas all report under one organization, which is the one I lead now.



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That really helped us in a lot of ways, because we actually started to get some consistency in the way our key metrics in terms of the way the dealer performs. And we measure things in buckets of performance like sales growth, margins, inventory turns, after market, parts management, rental, operational efficiencies, and so forth.

We also measure our dealers on their alignment and how aligned they are with Caterpillar and our long-term strategies. And we also measure them on their succession and their ongoing ability to service our customers on a continual basis.

One of the things we're really proud of, as I said earlier, is the length our dealers are dealers, averaging 40 years, and we've got fourth- and fifth-generation dealer principals representing us. So there is a whole heap of measurements we use to determine success of our dealer. And then we do -- now that we have them under common metric score card, the other thing we can do is help our dealers by putting comparisons to them to like-size dealers around the world and give them -- let them see where they are exceeding or they're deficient in some areas. And then they work towards those utilizing best practices. It is a difficult question, because there's a lot of segments a dealer deals with, but that's basically how we approach it.

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**Ann Duignan** - *JPMorgan - Analyst*

Okay. Thank you. And then maybe back to the parts question and the aftermarket, and we all know that the larger your population of equipment, the easier it is to sell spare parts. Maybe the dealers could address or one of the dealers could address the challenges from a dealer's perspective to grow market share versus all the different competition and just the different supply chain constraints that there are in the marketplaces right now.

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**Jeff Whiteman** - *Empire Arizona - President and CEO*

I'll jump in on that one. This is Jeff Whiteman again with Empire. When it comes right down to it, it's more than just selling parts. It's not like you just go online and do it, even though that's an option. But what it really comes down to is adding real value, to be true experts in the equipment and understanding how they're being used and what the true needs are of that particular customer.

And at the end of the day, it's really about helping them be successful. So there's a vast consultive role that goes into this. And as we can help our customers be more successful and truly help them run their business, then we definitely end up with a lot more share as a result of that.

But it really is where do you place your priorities? Are you just focused on selling more stuff or are you really focused on helping them be more successful? And if you think about that in terms of your own life, who would you rather do business with? Right. We want to do business with people that make us more successful, and that really provide a lot of help instead of just handing us a part.

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**Rob Charter** - *Caterpillar Inc. - Group President*

The other comment I'd like to make, Ann, in this as -- building from what Jeff said is, if you think about some of the statements we've made this year and some of the investments we've talked about, we're really, really focusing on our data analytics and our technology drive as we go forward this year, and that's all about that. It's how do you -- how does the customer optimize their equipment? How do they get more efficient on their job site?

How do we keep the uptime of the machine or engine or -- and how do we help them with a solution rather than say we sell you a product and then we support it with a part? So we're really, really focusing on that. It's very exciting. It's certainly challenging work, but as you think about our announcement with Uptake or you think about our announcement with Modustri Industries or Yard Club, all of these things are about how do we improve the performance of our customers. And once their performance improves, our performance improves.

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**Ann Duignan** - *JPMorgan - Analyst*

Okay, I appreciate the color. That's great. I'll get back in line in interest of time. Thank you.

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**Operator**

Okay. The next question is coming from Eli Lustgarten. Please announce your affiliation.

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**Eli Lustgarten** - *Longbow Securities - Analyst*

Longbow Securities. Good afternoon, everyone.

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**Rob Charter** - *Caterpillar Inc. - Group President*

Good afternoon, Eli.

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**Eli Lustgarten** - *Longbow Securities - Analyst*

Maybe get some idea, since this program was of 2014 origin and 2018 target, could you possibly give us some estimate of the costs involved? What investment Caterpillar is making, what investment the dealers are making, and over what time frame? How are you judging the returns on these investments or having quantification that these investments were successful?

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**Rob Charter** - *Caterpillar Inc. - Group President*

I can probably talk a lot more about how we measure in success than I can about specific costs, because there's a lot of initiatives spread across the organization. Let me talk about success. It's clearly aligned to our growth plans. So as we said, we sat down at the start or last year or the start of this year with a dealer and we were very specific in each work stream what success looks like with our dealers. And then as we worked through that with our dealers on specific action items that need to be taken by us and our dealers to achieve those goals. So we're very clear on how -- what success will look like, and it's really broken down by a specific dealer.

In terms of the cost, that depends. That's broken up by dealer and Caterpillar depending on the growth plan for each one. It's a little bit harder for me to quantify that for you.

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**Eli Lustgarten** - *Longbow Securities - Analyst*

I'm just trying to get some idea of how much money the dealers have to invest to be part or to succeed in this program? What is the corporate, what is Caterpillar itself doing. Is it a material number or is it something that gets rounded off? Just trying to get some idea of what this looks like over the next three to four years.

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**Mike DeWalt** - *Caterpillar Inc. - VP, Finance Services Division*

Eli, this is Mike. How you doing?

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**Eli Lustgarten** - *Longbow Securities - Analyst*

I'm fine, thank you.



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**Mike DeWalt** - *Caterpillar Inc. - VP, Finance Services Division*

Good.

So I think it's not a giant capital program for us. And if you look at it in terms of expense, much of it is reallocating people that are inside the Company, instead of working on other things to work on this. If you're just looking at incremental expense dollars, I'm not saying it's zero, but it's not hundreds of millions. And in some parts of this, there's quite a bit of overlap, like we have a big initiative going on around A&I today, analytics today, and some of that's related to Across the Table. Some of it is not directly related.

So there's incremental spend there, but it's not -- this is not hundreds of millions of dollars. It's a little bit of incremental expense in the context of CAT, at least on our side. I'm not sure what the dealers have. But a lot of it is repurposing people inside the Company that were doing other things where we made cost reduction and we moved them to work on this project.

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**Rob Charter** - *Caterpillar Inc. - Group President*

Eli, I'll give you one good example that Clive brought up earlier. I think it demonstrates how this can be a win-win for our customers and our dealers and ourselves. In the past as we looked at logistics, we would have made our distribution decisions in isolation of our dealers, and the dealers would have done the same.

The work that Clive described in our parts logistics collaboration in South Africa was a great example where we're actually combining and understanding the inventory needs between the two organizations. And instead of building two independent facilities, we're going in together to build a facility. So there is a benefit from that and actually a cost savings as we go forward.

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**Clive Thomson** - *Barloworld Limited, South Africa - CEO*

Thank you, Rob, this is Clive Thomson again.

Just maybe one other comment just to give you color from a dealer perspectives, is we're very much not seeing Across the Table as an add-on project, per se, to the dealership. We see it very much as integral to our strategic plan. And, in fact, the way in which our strategic plan this year has been constructed, designed, and presented to our board dovetails with each of the Across the Table work streams.

Across the Table becomes our strategy; it's not a series of add-on projects to our strategy. And from that perspective, we don't see it as having significant incremental cost to the dealership.

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**Eli Lustgarten** - *Longbow Securities - Analyst*

Thank you very much.

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**Operator**

Okay. And our next question is coming from Jamie Cook. Please announce your affiliation and pose your question.

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**Jamie Cook** - *Credit Suisse - Analyst*

Jamie Cook from Credit Suisse. Can you hear me?



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**Rob Charter** - *Caterpillar Inc. - Group President*

Yes.

**Jamie Cook** - *Credit Suisse - Analyst*

Oh, great. Thank you, just two questions.

One, I'm assuming you aren't going to want to target on the $9 billion to $18 billion revenue opportunity over time you cited before. But for the dealers specifically, can you talk about how big of an opportunity you think this is relative to your business. Is it a 10% opportunity, 20%, and how that's changed since you initially rolled out this initiative in 2014? So the question is, as you're going through this, is there a lot more low-hanging fruit or has it been more difficult relative to what you would have thought?

The second question relates to I think when you also rolled out this initiative you spoke about 40% of your customers dealing with more than one dealer. Can you talk about the progress you've made with regards to that, what's the right number? And then I would assume that also creates some conflicts or challenges amongst the dealers, so if you could talk me through how you work that out. Thanks.

**Jeff Whiteman** - *Empire Arizona - President and CEO*

Jamie, this is Jeff Whiteman.

On the first question, it really depends upon the dealer. Right? For some dealers, the fruit's way up on the tree. In other dealers, the fruit's down low. So it's hard to give you an answer as to what this means to each specific dealer. For us in Arizona, I think the fruit's pretty high up on the tree, and we're using Across the Table to make sure to validate the things that we're doing, the correct things we need to be doing, and then challenge ourselves with how are we going to get better and how are we going to add more value.

**Lawrence Poh** - *Lei Shing Hong Machinery Co. - CEO*

Jamie, Lawrence here. I think in terms of the incremental size, even when you look only on the technology space, the way we move in with all the connected assets, we can actually pull off a lot of our incremental revenue up from the customers. And this -- those kind of results we actually start to realize immediately.

**Rob Charter** - *Caterpillar Inc. - Group President*

Jamie, I'll probably have a run at the customers in the 40% you quoted in terms of the go across multiple dealers. We still, as I said earlier, think that our independent dealers who have got local knowledge is a differentiating strength of the way we go to market with our independent dealers.

One of the things that was part of the Across the Table was our playbook. And it was talking about how do we customize our solutions and how do we help our customers that actually have different needs in our go-to-market strategy. Because as you said, the world is getting smaller and there's a lot more customers that will cross territories or cross boundaries.

So that was a big part of Across the Table as we work with our dealers to how do we manage those customers? Who is the local interface with them? How do we work through Caterpillar representing a multitude of dealers as we work through some of those managed accounts?

So we've got a strong playbook as part of one of those work streams to do that, and we're implementing that as we speak. We feel quite good about what we're doing, but there are multiple different customer needs, and so we have different playbooks in how we approach those customers



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depending on their needs. To me it's all about how do they operate, what do they need, how can we best suit that through our independent dealer network.

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**Jamie Cook** - *Credit Suisse - Analyst*

Thank you. I'll get back in queue.

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**Operator**

Okay. The next question is coming from Jerry Revich. Please announce your affiliation, then pose your question.

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**Jerry Revich** - *Goldman Sachs - Analyst*

Good afternoon, it's Goldman Sachs.

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**Rob Charter** - *Caterpillar Inc. - Group President*

Good afternoon, Jerry.

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**Jerry Revich** - *Goldman Sachs - Analyst*

Hi. I'm wondering if, Jeff or Lawrence, if you gentlemen can touch on what improvements in your fill rates and inventories have you seen? It was similar to those statistics Clive quoted, if you have them. And what's been the impact on the market share from a parts standpoint so far for all three of you as a result of better service levels?

And then my second question is I'm wondering if you folks can just flesh out the technology cross-selling opportunity for some of the bigger side type dealers in the US. They've been able to get up to 5% of profits from the technology part of their business. I'm wondering if you can talk about the opportunity set for you within that context. Is that a viable target for you folks, and what's the opportunity? Thank you.

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**Lawrence Poh** - *Lei Shing Hong Machinery Co. - CEO*

Lawrence here. I'll touch on the -- first of all, you're asking about a fill rate. For the fill rate, I think it's a continuous improvement. What we see from ATT is we shift from a fill rate management to on-time, in full.. So that drives a lot of changes in some mindset in serving the customers. I see a lot of positive outcome from this driving the change in our culture.

Do we see progress? Do we see some results now? No, definitely not. We are definitely moving in to fulfill our responsibility as a dealer to make sure that the customers are totally satisfied with our service providing.

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**Jeff Whiteman** - *Empire Arizona - President and CEO*

This is Jeff Whiteman again. Regarding our fill rates, our fill rates would be one of those fruits that you would consider to be very high up on the tree. But that's due to our extensive inventories, and we're hoping that through parts logistics and some of the other things that we're working on through Across the Table that we'll be able to maintain those fill rates but lower our inventory. But we're right in the beginning stages, so we're not sure exactly what that's going to mean.

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**Rob Charter** - *Caterpillar Inc. - Group President*

I'll give you an example, I won't name the dealer because they're not here at the table. But we've done some pilot work on our parts collaboration and parts logistics collaboration work, and we've done some modeling with those dealers. And what we're seeing is the initial parts is we're -- we can reduce anywhere from 6% to 10% of their inventory and improve their fill rates by a couple of points as well.

So it's really encouraging as you get a clearer line of sight to your customer need all the way back to the supply chain, which is really part of our engineered value chain work we're doing, not only with our dealers but also with our supply base. We can see that we can actually serve our customers better and manage our inventory down. So, we're very encouraged by some of those results.

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**Rich Moore** - *Caterpillar Inc. - Director of IR*

Jerry, what was your -- could you repeat maybe the second part of your question about technology and SITECH?

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**Jerry Revich** - *Goldman Sachs - Analyst*

Yes, sure, Rich. The second part of the question is how significant is the technology revenue and earnings opportunity for you folks as part of your multi-year business plans? Can it be a significant earnings contributor to you folks, and where are you on monetizing the opportunity for the three dealers?

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**Lawrence Poh** - *Lei Shing Hong Machinery Co. - CEO*

Lawrence here. I think for the technology side, I think it drives a couple on a couple of fronts in our businesses. Take for example on the construction industrial, we leverage on technologies on that platform to generate more sales lift. So we have that. I think we have to add a lot of people in terms of the sales coverage. We're deploying technologies. We're able to generate more sales lift up from the market.

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**Clive Thomson** - *Barloworld Limited, South Africa - CEO*

This is Clive Thomson. One of the things, as we try and monetize the opportunity in these technology solutions, is the first stage is getting the assets connected. Just if I quote you one statistic in Southern Africa at the moment, we've got 4,813 connected assets. The metric we use is POCA, percentage of connected assets. It represents 16.8% of the assets in our territory. We connected 839 this year, and so it's a gradual process.

Obviously, the higher percentage, and ultimately, we would aim to have 100% of the assets in our territory connected. But as that POCA metric increases, so the opportunity to provide solutions and monetize those solutions to the customer base increases. So I would say we're still fairly early into this journey; we've embarked on it over the last two years. But if you look at that stat I gave you just under 17% of our assets in Southern Africa that are connected at the moment, you can still see there's quite a big opportunity down the line until we get 100% of the asset base connected. And then ultimately are able to through data analysis and insights convert those opportunities into commercial value.

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**Rob Charter** - *Caterpillar Inc. - Group President*

To give you a feel about where we are with technology-enabled solutions, we have about 116 dealers out of the 177 dealers have now got endorsed with equipment management solutions (company corrected after the call). We're well down the track in terms of driving the dealers and the dealers initiating their ability to utilize technology-enabled solutions to help our customers.

This only started a few years ago, and I think we're working really well. And as you tie that to the analytics work that we've talked about before, we really see this as a great opportunity to accelerate in this space. And the dealers are ready for that. So we're moving ahead well in this space.



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**Jerry Revich** - *Goldman Sachs - Analyst*

Thank you.

**Rich Moore** - *Caterpillar Inc. - Director of IR*

We probably have time for one more question.

**Operator**

Okay. Your next question is coming from Larry De Maria. Please announce your affiliation and pose your question.

**Larry De Maria** - *William Blair & Company - Analyst*

Thank you. It's William Blair. Just curious to understand what the dealers need to deliver, higher pins and better performance for their customers? What are the dealers asking of Caterpillar to deliver? And also the carrot is to improve results and make more money, but is there a stick here also that the dealers need to get to the middle quartile for example? And what would the stick be from Caterpillar if they don't get to those levels over that time period?

**Rob Charter** - *Caterpillar Inc. - Group President*

So Larry, do you want me to answer on behalf of the dealers what they expect of us, or would you like the dealers to?

**Larry De Maria** - *William Blair & Company - Analyst*

I would like to hear the dealers, thanks.

**Jeff Whiteman** - *Empire Arizona - President and CEO*

There's a long list. I'm not kidding about that, there's a long list. There's certain things that the dealers can do well. But when it comes to technology and some of our systems, it's too expensive and too complicated for any one dealer to do by ourself. As I mentioned with e-business, we need Caterpillar to be out in front and drive that, and we need to have Caterpillar continue to drive technology-enabled solutions that allow us to bring true solutions and meaningful solutions where we add real value to our customer base.

So we can only do so much of this by ourself, and then we need Caterpillar to come along for the ride and help us with that, which they're doing. And a little bit of this goes to the spirit of the relationship between Caterpillar and its dealers. We have very frank and open discussions about a variety of issues, but at the end of the day, we're able to come together and make the right choice and do what's right regardless of how painful that may be.

And this Across the Table has really borne that out. It's been -- believe me, there's been some tough comments, and I've been very critical in certain areas and they don't kick me out of the room. They want to understand why do I see it that way, and then they take action. It's really been a very positive experience for all of us, albeit a painful one from time to time.



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**Larry De Maria** - *William Blair & Company - Analyst*

Okay. And then, I don't know, maybe Rob can answer the stick part, if there is a stick part. Secondly, is the -- are we right to assume that about 70% of that $9 billion to $18 billion would end up in CAT's P&L and the dealers get a portion of that, if those are the numbers I remember from ConExpo?

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**Rob Charter** - *Caterpillar Inc. - Group President*

I'll answer the stick and then I'll answer how the benefits seem to play out as we go through this initiative. From a stick point of view, we have a very close relationship and we're very interdependent with each other. As I talked about before, we measure the dealers on a couple of things. There's three real categories we talk about. We talk about the dealer score card, which is their operational performance, and that's metrics, as we talked about a little bit earlier.

The second is, are they aligned to Caterpillar, and are we pulling in the same direction? And that's really critical because if you're partner is pulling in a different direction, it's never going to work. So we do measure that and we talk a lot with our dealers on that. The third one is have we got a continuity plan, a succession plan to continue to provide the customers with that service over a long period of time?

Those are three key measures that we measure, and that's ongoing. That was there before Across the Table and will be there after Across the Table, it won't finish. But as we continue to develop our strategies. So nothing's changed there. But they're the three measures.

We do that with the dealers on a regular basis. We have a dealer profile with each dealer that we talk to the dealer principal with, and we do that every year through our district operations.

In terms of benefits, you have to break it down into the work streams. Basically, usually as we go through with our dealer advisory group, there is benefits on both sides of the party to each of these work streams. And quite often, it's very similar to each other. So as we break that down, the most important thing we see is, is this helping the customer, is this benefiting the customer? And if the answer is yes to that then we'll work out how to share benefits later. But the first thing is making your customer successful and then we're successful from that, and then we work out how to share the pain or the spoils as we go forward from there.

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**Rich Moore** - *Caterpillar Inc. - Director of IR*

Okay. Thank you. It looks like we're out of time. Thank you, everybody, for joining.

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**Rob Charter** - *Caterpillar Inc. - Group President*

Thank you.

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**Operator**

Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.

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