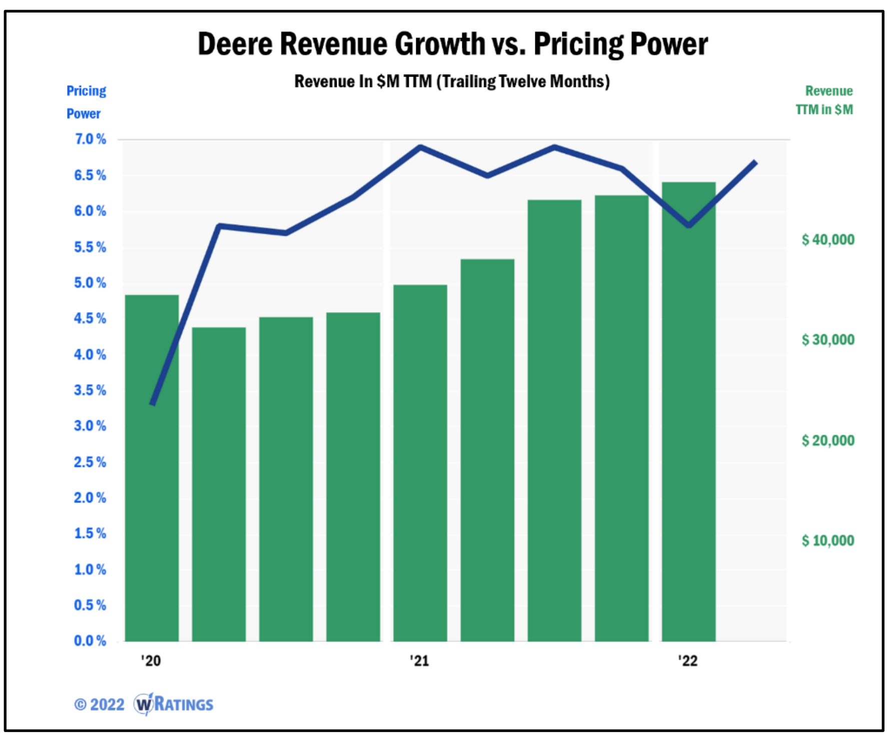
THE W REPORT

JOHN DEERE

What does an executive team do when its customers no longer want to buy your products and, if they do buy/use them, they expect your products to work for long periods of time without breaking down? That's the economic reality that Agriculture & Construction equipment manufacturers faced over the past decade. And the heavier (i.e. more expensive) the equipment, the more the resistance from customers.

As equipment leasing became more popular along with the demand for higher quality products in the 21st century, manufacturers and their dealers were forced to respond to stay profitable. Layoffs and cost-cutting were the norm, but those do nothing to help generate top-line growth. Some companies zigged, others zagged. The smart ones looked outside their industry to figure out new paths to take. Executives at John Deere (NYSE: DE) are in that latter category, and their ability to generate pricing power with customers continues to drive revenue growth as seen in our chart.



Let’s start with the Deere Investor Presentation for Fiscal 2022. They have a “Smart Industrial strategy” (their words) to “deliver intelligent, connected machines and applications . . to unlock customer economic value across the lifecycle” (also their words). Lots of companies today talk about digital and technology but few state it in both the customer and economic terms. Deere goes further: Their actions and results back it up though.

Borrowing proven ideas from the likes of Apple (NASD: AAPL), Netflix (NASD: NFLX) and Tesla (NASD: TSLA), the Deere executive team transformed their business framework from a stodgy curmudgeon to a cutting-edge elite performing savant. In this report, we are going to map out several of the executive decisions made and how customer perception of Deere has improved as they’ve moved closer to meeting customer expectations.

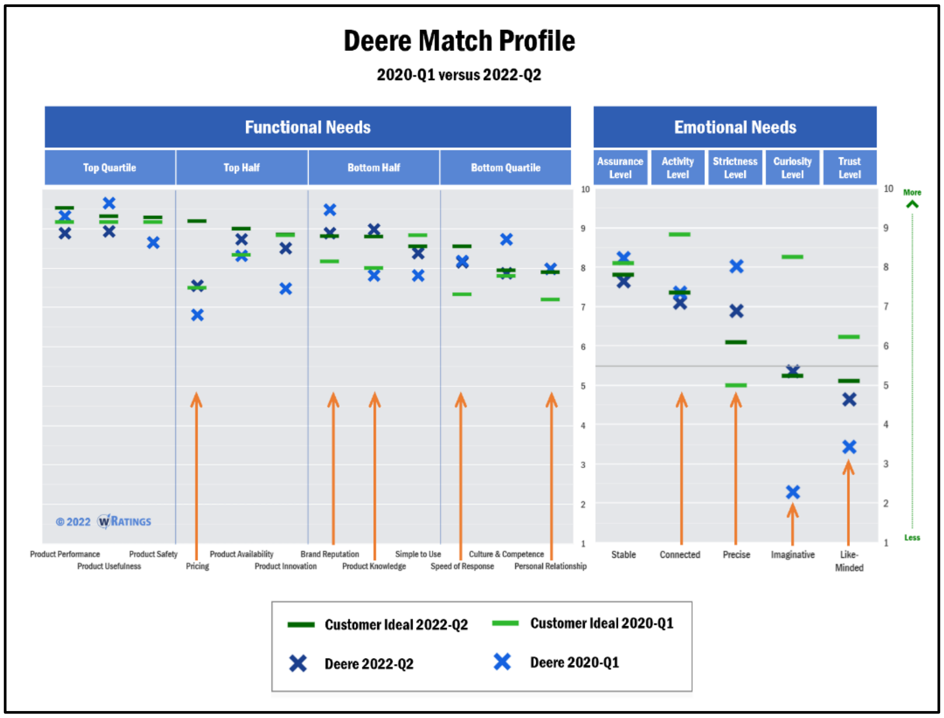
Customer Needs: Pre-Pandemic vs. Today

The Deere executive team went to work at plotting out new sources of compelling value for customers. One of the new ways to generate revenue for machinery equipment is to make them autonomous. This not only eliminates a substantial portion of labor, but also frees up time to perform other activities. If done accurately, autonomous tractors should be able to outperform their human counterparts in consistency and accuracy. Deere has been on the acquisition front to deliver on autonomy.

Earlier this year, Deere acquired the patents and technology from Light, which specializes in depth sensing using cameras on autonomous vehicles for what appears to be a “vision only” approach. Tesla is known for using a vision-only approach, although sometimes criticized for it. But those vision requirements for Deere tractors are quite different than for Tesla vehicles in that tractors don’t move nearly as fast.

Self-driving tractors is not the end result for Deere customers, they want more productivity out of their land. The goal is to generate higher crop yields, which requires assessing all the movements and costs in their agricultural lifecycle. For Deere executives, that assessment starts with data – and lots of it. Software embedded in Deere tractors makes that happen. Best of all, the data can come in magically from the machine to Deere and its dealer community to analyze.

Along with many other investment decisions, these new capabilities translate into compelling value for Deere customers. Our Match Profiles compare 2+ customer profiles over time, with the lighter colored markers “fading into the background” since they are from an earlier time period. The darkest colors illustrate the most current time period, allowing you to easily see performance front and center.



In the Deere Match Profile, the lighter green bars and blue X's represent Deere customers from our interviews back in 2020-Q1 (pre-pandemic). The darker markers represent customers 2+ years later in 2022-Q2.

The orange lines spotlight just how much customer expectations shifted from before the pandemic to today. Deere Customers, which may not align with all machinery manufacturer customers, expect more (functionally) from the company's pricing, brand, product knowledge, response speed and personal relationship. Customers also changed their desires for how Deere should interact with them (emotionally): They want less connection and imagination, yet expect Deere to be more precise. Customers want Deere to ask slightly more questions (i.e. less like-minded).

All of these changes make a lot of common sense for a customer. Be respectful of my time but stay active to connect with me. Be exacting with your equipment to prevent mistakes, and keep a routine, practical approach to our business. Be somewhat tough-minded on us, and keep us on track to generate more crop yield.

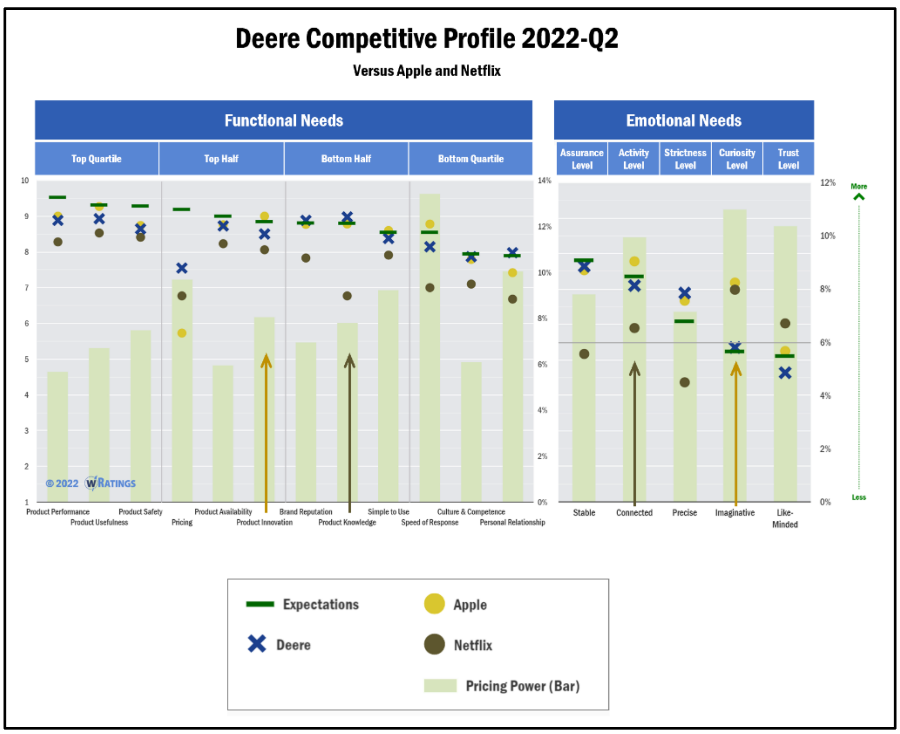
How has Deere responded? Over the last 2+ years, Deere performance moved closer to what customers expected. The goal to delivering customer value is not to over-deliver, but rather to match your company's performance to what customers expect. Any more or less delivery, whether on a functional or emotional need, just means you are not meeting their ideal. Worse yet, you could be wasting money on performance that customers don't really care about and won't give you credit for the increased performance.

How Deere's New Model compares to Apple & Netflix

To compete within an industry, companies must find ways to break out of the status quo and build new, compelling value for their customers. Over time, customer value within any industry can drift or shift to change the competitive landscape. Drifting implies smaller movements and requires sequential change; Shifting implies larger movements and requires a more monumental type of change.

So how do executive teams in larger companies make the shift to deliver that compelling value, with so much at risk if they get it wrong? In a word, borrow. Not the financial kind of borrowing, but the business framework kind of borrowing.

Customers choose Apple because whenever they enter a new market, they challenge the industry's status quo with an entirely new, fresh approach to delivering value. Apple customers love their innovation and imagination so much, they are willing to pay a premium for it over non-Apple products. In their Competitive Profile, customers view Deere's performance as good or even better at meeting their expectations than where Apple is today (see gold arrows for specific needs comparisons).



When Netflix out-smarted Blockbuster to win the at-home video market, the Netflix executive team focused on building a large, unique library of content to share across the Netflix community. With all those choices, how would customers find what they want to watch? The ability to connect and share knowledge of which content other customers liked formed a powerful moat for Netflix (which they now need to pursue new moats to remain the dominant player). Deere's performance on those same moat characteristics, knowledge and connection, is not only as good as Netflix but is superior to them (see brown arrows for comparisons). Using the power of their machinery's data from a global customer community, Deere's knowledge base will continue to grow as more "smart" tractors are deployed.

By borrowing proven ideas from Apple and Netflix, Deere can shift the market from just buying, leasing and servicing their equipment to offer subscriptions on how farmers can improve their crop yield. Just what Deere customers want.

Next Investments for Deere Revenue Growth

So where should Deere executives focus their current investments to maximize revenue growth? To help understand how to get ahead of user expectations, we look for patterns in customer perception of Deere and analyze them against key metrics that drive company growth (e.g. revenue, profits, or other internal operating metrics).

Currently, three key areas are contributing to Deere's revenue growth: Product Safety, Knowledge and Availability. This is likely to continue at least through the end of Q3. When looking longer-term though, customer expectations are going to shift again going into 2023 and beyond.

Deere Predictive Power

As of 2022-Q2

Summary. Product Safety, Knowledge & Availability are key contributors to revenue growth today at Deere. In the next 6+ months, Deere's customer value will migrate to Speed & Simplicity. Customers are willing to pay more (pricing power) for that performance today, indicating where Deere could focus future investments to grow revenue.

Relationship Strength
Very Strong Correlation (0.8 to 1.0)
Strong Correlation (0.5 to 0.79)
Mild Correlation (0.3 to 0.49)
No Correlation (Below 0.3 or negative)

Contributing to Growth Currently | Likely Contributing to Growth In 6+ months

Satisfaction Averages	Impact Revenue TTM 2022-P2	1-Per in Future 2022-P3	2-Per in Future 2022-P4	3-Per in Future 2023-P1	Pricing Power 2022 - P2
Product Safety	0.86	0.48	0.08	-0.11	7.50%
Product Knowledge	0.49	0.64	0.19	-0.05	7.83%
Product Availability	0.42	0.57	0.13	-0.12	5.96%
Speed of Response	0.23	0.49	0.37	0.57	13.42%
Simple to Use	-0.03	0.39	0.32	0.64	9.23%

Pricing Power Currently

Two new customer needs are likely to contribute to Deere's growth: their Speed of Response and how Simple their products are to use. Customers already attach a substantial amount of pricing power to both these needs, which is their willingness to pay more if Deere meets their expectations.

Response speed indicates that the Deere dealer community may become even more critical to their future growth. The ability to prove how simple Deere products are to use – which also happens to be a core component of Apple products – may also add to the way Deere is able to maximize crop yield for its farmers.

In probably one of the most famous Steve Jobs' product introductions, he said the first iPhone was "magic." Loyal iPhone customers today would still agree.

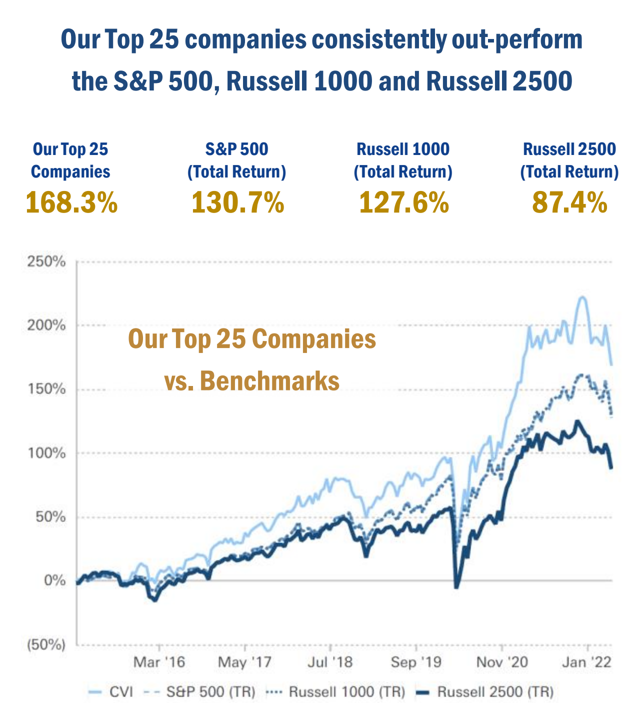
About The W Report™

The W Report™ provides a proven, innovative way to see what contributes to a company's revenue growth today, and predictive power of where to focus efforts that will drive future revenue. Created by **Harvard Business Review** author Gary A. Williams, the patented wRatings system provides fresh, forward-looking data and analytics that cannot be found anywhere else.

Our competitive strength research requires a number of fixed investments to help executives make decisions about how to drive organic revenue growth. Basic economic theory shows that in a highly competitive market, returns will be driven down to essentially no economic profit as rivals imitate any known advantage. To achieve a durable advantage, executives must find ways to defy this very powerful force of competition.

Since starting a fund on January 1st, 2015, the Top 25 Companies in our rankings have outperformed the S&P 500, the Russell 1000 and Russell 2500 by double-digits. Our research was featured as the May 2002 cover article in Harvard Business Review.

The wRatings Corporation provides CEOs, their executive teams and PE Firms & Hedge Funds with subscriptions to our independent competitive research analytics.



Source: Concentus Wealth Advisors, May 1st, 2022