From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

July 15, 2013
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• Buyer for MacDon?
• Polish Ag Booming
• Co. Store Comeback?

CNH Industrial Has Big Aspirations Following Merger

The merger of CNH Global and its parent company, Turin, Italy-based Fiat Industrial S.p.A., goes beyond simply streamlining an unwieldy conglomerate. Post-merger, the newly formed company would be the world's third-largest capital-goods company, according to Zacks.com. "The successful integration of both the businesses would fortify the combined entity to compete at the highest level in the capital-goods sector with adequate flexibility to pursue inorganic growth at opportune times."

The merger is also likely to sow the seeds of a similar endeavor by serving as a "technical blueprint" for the combination between Fiat and its Chrysler division in the U.S., according to Zack's.

"The prospectus for the new company does not make clear who CNH considers its number one or two capital goods competitors might be," says George Russell, a former CNH executive, who worked both ag and CE sides of the business, and now executive partner with Currie Management Consultants.

"But the prospectus identifies the targets as 'U.S. capital goods companies.' We assume this means Caterpillar with $66 billion in 2012 revenues and Deere & Co., which had revenues of $36.2 billion last year. Combining all of its 2012 revenues, including farm and construction equipment, trucks and engines, CNH Industrial approaches Deere's level with about $34 billion in revenues."

A ranking global player competing in CE, trucks and engines is Volvo with $47 billion in revenues.

Strong Ag Position

With the combined sales of its Case IH and New Holland branded equipment, CNH is clearly established the second largest manufacturer of farm equipment in the world with $15.7 billion in revenues for year ended December 31, 2012. This still places it more than a few steps behind number one Deere, which reached $27.1 billion for fiscal year ended October 31, 2012. Nipping at both their heels is AGCO Corp. with $10 billion in ag machinery sales for the year ended December 31, 2012.

In his assessment of CNH's "longer view" approach, Russell says, "Overall, CNH Industrial has the scale and breadth to provide resources and diversity for long-term sustainability," says Russell.

"Deere is the global market leader in farm equipment and continues to earn a predominant share of its returns from North American ag. Its CE business is basically only in North America where, in order to compete successfully, they are heavily invested in distribution through the Nortrax organization. Its components business is a good contributor to the bottom line," he says.

AGCO, on the other hand, "is a pure ag play and has deepened its commitment to this sector with the GSI acquisition in grain handling."

Market Share. Based on what *Ag Equipment Intelligence* is hearing from green and red dealers, Deere and Case IH are currently engaged in a knockdown, drag-out battle for market share in North America, in some cases sacrificing profit margins for unit volume. With the continuing boom in big farm machinery — both

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CNH Industrial Revenues by Segment

(in millions U.S. $)

	2012	2011
Ag & Construction Equipment (CNH)	20,972	18,152
Trucks & Commercial Vehicles (Iveco)	11,659	12,492
FPT Industrial (Fiat Powertrain)	3,832	4,207
Elimination & Other	(2,780)	(3,121)
Total for Group	**33,683**	**31,730**

Trading Profit/Loss by Segment

(in millions U.S. $)

	2012	2011
Ag & Construction Equipment (CNH)	2,030	1,506
Trucks & Commercial Vehicles (Iveco)	609	647
FPT Industrial (Fiat Powertrain)	184	140
Elimination & Other	(128)	(85)
Total for Group	**2,695**	**2,208**

Source: company reports

row-crop tractors and combines — the two are attempting to further increase machine population in all major ag regions in anticipation of a slowdown that will eventually impact the overall industry.

Jim Walker, vice president of Case IH North America, confirmed the push for increasing market share in an August 2011 interview with *Ag Equipment Intelligence*.

At the time he said that Case IH would continue pushing its dealers to focus on increasing their machine population along with market share.

"We'll continue to emphasize the importance of building machine population," he said. "The more they can get out there from the standpoint of product range, the more they'll put themselves in a position to improve absorption rate and to handle any downturn in new equipment sales."

Walker said building machine population and market share go hand in hand in strengthening a dealer's position in his sales area.

"Machine population is the consistent buildup of machines year after year, which increases a dealership's total penetration. Market share represents a point in time during a defined period. "Market share is important because that's how a dealer builds his accumulation of product and population, he said.

Overall, says Russell, CNH Industrial is has a better spread of business activities globally. "With the exception of trucks in North America, the new company has significant footprints for all products in all regions and a more diverse product portfolio, which includes farm, construction, truck, engines and powertrains.

Its business model of portfolio management says that when one business is down, another well performing business will continue to fund growth and development. So, for the long term, dealers should expect that CNH Industrial should be competitive in all segments whether their industry and market is up or down," says Russell.

"Typically, greater market penetration is achieved where each dealer sells the full line of products from only one of the brands..."

Dual Branding. He also adds that dealers can expect growing pressure to reduce the number of "dual-branded" Case IH and New Holland dealerships. "The organization changes that occurred in 2005 when Sergio Marchionne arrived and created the global brand presidents position will continue in the new CNH Industrial organization," says Russell.

In its prospectus, the company says, "Consistent with its brand promotion program, CNH generally seeks to have dealers sell a full product range. Typically, greater market penetration is achieved where each dealer sells the full line of products from only one of the brands [Case IH or New Holland]...Exclusive, dedicated dealers generally provide a higher level of market penetration."

CNH's push to minimize dual-branded dealerships was also acknowledged by Walker in that 2011 interview. "We certainly are not going to disrupt current business that's out there with our dealers who happen to have dual brands in the same building," he said. "New Holland and Case IH have distinct drivers in the marketplace, and there's more product range differentiation every year between the brands. As we go forward, we would like to see individuality of our dealers in pushing those products and those brands."

CE: Miles to Go

While CNH Industrial will continue to build on its strength in farm machinery, it has some distance to go to get to the number one or two position in construction equipment. With $3.8 billion in revenues for 2012, CNH is among the bigger players, but has miles to go to get anywhere near industry giant Caterpillar.

According to Boston Consulting Group data, the heavy hitters in the construction equipment business include Caterpillar, Komatsu, Terex, CNH, Deere & Co., Volvo Group, IR (Bobcat), Hitachi, Liebherr, JCB, Sany and Zoomlion.

Maybe the biggest question about the new company's strategy comes in its CE business and the long-term source for excavator technology, says Russell. "The global agreement with Kobelco is winding down and CNH Industrial will distribute directly to Case and New Holland CE dealers in the Asia Pacific region instead of through Kobelco. Kobelco technology will continue to be used for excavators built in CNH plants in Europe and North America, at least for the near future in an arrangement similar to that of Deere and Hitachi in North America," he says.

Russell adds that Sumitomo is the supplier for Case heavy excavators

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Corn Conditions Gives Clues to Yield

Corn conditions during the growing season is usually indicative of that season's yield. According to Steven Fisher, analyst for UBS, on average, in bumper crop years, over 70% of the crop is reported to be in "good" or "excellent" condition during the July, August and September growing season. Conversely, during poor weather crop years less than 60% of the crop is reported to be in "good" or "excellent" condition later in the season.

"The separation in condition between bumper crops and poor crops typically occurs in the late-June and early-July growing season. We note that this season condition has been improving over time rather than deteriorating, which could be a positive for this season's yield," says Fisher. AEI

Equity Firm Eyeing MacDon Acquisition

According to a July 8 report from Reuters, TPG Capital is one of the final bidders for MacDon Industries Ltd., the farm equipment manufacturer based in Winnipeg, Manitoba.

Citing three unidentified people familiar with the matter, Reuters reported that the private equity firm is working on making a binding bid for MacDon by the mid-July deadline for final offers. Reportedly, MacDon is looking to sell itself for around $1 billion.

MadDon describes itself as a family owned and Canadian-based manufacturer of harvesting equipment specializing in the production of pull-type and self-propelled windrowers and specialty and pick-up headers for combines for world markets. Its disc, auger and draper products are commonly used to harvest a wide variety of cereal grains, oilseeds, grass seeds, rice, soybeans, hay, forage and specialty crops such as peas, lupins and lentils.

Reuters also reported that "Other parties, including buyout firm Berkshire Partners LLC and an industry player, have also been evaluating potential bids for MacDon, although it remains uncertain whether a competing offer will materialize."

In April, the news group broke the story that MacDon had enlisted Goldman Sachs Group Inc. to find a buyer for the company. MacDon began in 1949 as Killbery Industries Ltd., a manufacturer of agricultural equipment, including sprayers, grain augers, disc seeders, cultivators and manure spreaders. It was renamed MacDon following the company's acquisition by the MacDonald family in 1971. AEI

FARM MACHINERY TICKER (AS OF 07/10/13)

Manufacturers	Symbol	07/10/13 Price	06/12/13 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$36.16	$34.34	$36.75	$27.80	29.39	32,129	453.06M
AGCO	AGCO	$53.14	$53.33	$49.90	$40.29	10.06	942,802	5.17B
AgJunction Inc.	AJX	$0.96	$0.95	$1.00	$0.56	N/A	30,213	N/A
Alamo	ALG	$43.06	$40.73	$44.13	$27.07	17.87	16,154	519.86M
Art's Way Mfg.	ARTW	$7.57	$7.44	$8.50	$5.23	9.35	9,884	30.58M
Blount Int'l	BLT	$12.01	$12.99	$17.49	$11.58	13.97	222,178	591.12M
Buhler Ind.*	BUI	$6.20	$6.20	$7.25	$5.20	7.95	3,230	153.23M
Caterpillar	CAT	$84.96	$83.21	$99.70	$78.25	11.45	6,636,950	55.86B
CNH Global	CNH	$43.17	$42.10	$49.99	$34.36	8.70	339,105	10.49B
Deere & Co.	DE	$82.87	$84.32	$95.60	$72.85	10.20	3,191,580	32.16B
Kubota	KUB	$78.52	$78.73	$88.38	$44.84	21.05	105,183	19.72B
Lindsay	LNN	$77.89	$79.12	$94.90	$64.46	14.58	189,486	1.00B
Raven Industries	RAVN	$31.28	$29.94	$37.73	$23.01	24.06	105,851	1.14B
Titan Int'l	TWI	$17.10	$17.99	$27.12	$15.77	11.83	903,397	915.23M
Trimble Navigation	TRMB	$27.77	$26.15	$32.03	$20.01	37.78	1,657,260	7.10B
Valmont Industries	VMI	$149.22	$138.88	$164.93	$119.23	15.42	184,873	3.99B
Retailers								
Cervus Equipment	CVL	$19.85	$19.05	$20.90	$18.50	12.41	10,889	296.10M
Rocky Mountain Equipment	RME	$13.57	$13.55	$14.88	$10.40	10.36	40,316	260.73M
Titan Machinery	TITN	$20.26	$20.06	$32.00	$19.07	12.48	506,043	422.50M
Tractor Supply	TSCO	$112.17	$112.69	$122.20	$75.46	31.45	537,986	8.53B

**As of 7/9/13*

Deere Reports Mixed Retail Sales in June Commentary

While industry wide sales of farm tractors and combines continue at a brisk pace, in its June monthly retail announcement on July 11, Deere and Co. reported it experienced "mixed" results in May.

Deere said U.S. and Canada sales of utility tractors were flat in May, while industry wide the segment saw 4% growth. In addition, Deere's inventory was reported to be lower than the industry wide inventory of utility tractors, which stood at 49% of the previous 12-month sales, according to a report by Zacks, an investment research firm.

On the other hand, Deere's sales of row-crop tractors saw better results than the industry growth rate of 27% during the month.

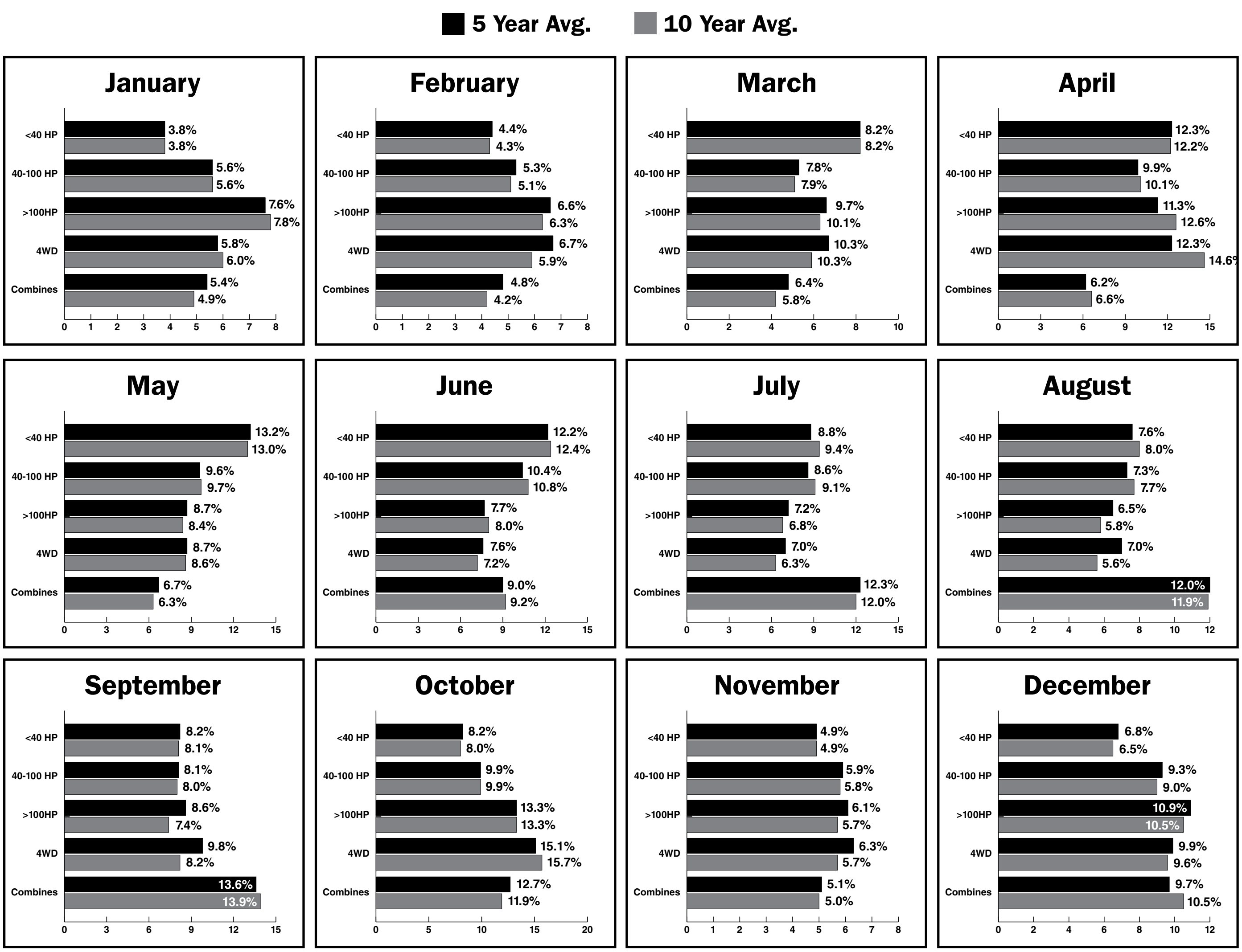
Likewise, Deere's inventory of row-crop tractors was lower than the industry inventory, which was 33% of previous 12-month sales. Deere didn't fair as well with four-wheel drive tractors, posting a double-digit decrease for the month vs. 8% growth across the industry. However, inventory was in line with the industry at 23%.

Combine sales saw better results, with an industry growth of 18%. Deere's inventory for combines was slightly lower than the industry at 20% of the previous 12-month sales. Growth was also seen for select turf and utility equipment, with retail sales seeing double-digit growth.

Deere says it expects overall equipment sales to grow around 3% in the third quarter of fiscal 2013 and 5% for the full year.

Segment-wise, Deere is forecasting worldwide sales of agriculture and turf equipment to grow 7% in fiscal 2013, according to the report. **AEI**

Strongest Sales Months for Farm Machinery



Source:AEM & RW Barid

The seasonality of farm equipment sales has remained steady over the last 10 years. The best month for compact tractor sales is May (13.2% 5-year avg. and 13% 10-year avg.). Utility tractors sell best in June (10.4% 5-year avg. and 10.8% 10-year avg.). Row-crop tractors sell best in October (13.3% on average over both the last 5 and 10 years). October has also been the best month for 4WD sales, averaging 15.1% over the last 5 years and 15.7% over 10 years. Combine sales are strongest in September, (13.6% over the past 5 years and 13.9% over the past 10 years).

Will 'Company Stores' Be the Answer for Shortline Equipment Makers

With the majors adding to their product lines and pressuring their dealers to remain "pure" in the equipment they carry, it's becoming increasingly more difficult for shortliners to find the right dealers in the right markets, Rusty Fowler, the retiring president and CEO of Krone North America, told *Ag Equipment Intelligence*.

Reflecting on how working with dealers has changed over the last 20 years, Fowler says the biggest change has been the limitation of the options available to shortline manufacturers in developing and maintaining strong distribution channels.

Krone specializes in high-end hay and forage harvesting equipment.

"If you're a company like us, when we made the decisions to produce the Big M self-propelled mower, the Big X forage harvester and the Big Pack baler, we more or less laid out the direction we had to go to successfully compete. At that same time, we limited ourselves in the options we had in dealers," he says.

Last week Fowler announced he would be retiring from Krone North America after 26 years. He had also spent 15 years with International Harvester before his stint with the Spelle, Germany-based Krone.

He'll be succeeded by Thomas F. (Tommy) Jones, a 28-year veteran with John Deere.

"When I started with Krone in 1987, we only offered traditional hay tools. We could go out into the ag marketplace and there were plenty of good dealers. If you lost a contract in a town, there was usually someone else you could go to that was an acceptable dealer. Today, there isn't anywhere close to the number of dealers there were back then. So our options are very limited. Having the wrong dealer," says Fowler, "is worse than having no dealer."

At the same time, the major farm equipment manufacturers began producing similar products to Krone, like large forage harvesters and big square balers. This became another constraint for shortline manufacturers to retain top-notch dealers.

With fewer dealers around and limited options due to competing products with the majors, where can shortliners go? "If you're not going to pull out, then you're going to have to do something else," Fowler says.

Company Stores. This scenario is what lead Krone to open four company stores — three in California and one in Wisconsin. "It's a very expensive way to keep your channels open to the market, but it is absolutely the last option that you've got. So that's the way we looked at it. We're seeing the same thing happening in Germany as well," Fowler says.

Krone North America recently opened its forth store in the Imperial Valley in California, a huge hay market. "Again, we ran into the situation where we were losing the focus of the dealer we had, and we saw a very clear possibility that we could be without representation in that market completely in the next 18 months," Fowler explains.

Opening the company store was a preemptive strike. "It was clear what we had to do, so we looked at our options. It's the same old thing, but it's a great market for our product that we couldn't afford not to be there. So we went ahead and opened our own facility. It's a real brutal ballgame out there today," he says.

Staying Competitive. Opening the stores, which operate as independent dealers, is a strategic move to keep Krone North America competitive in key markets.

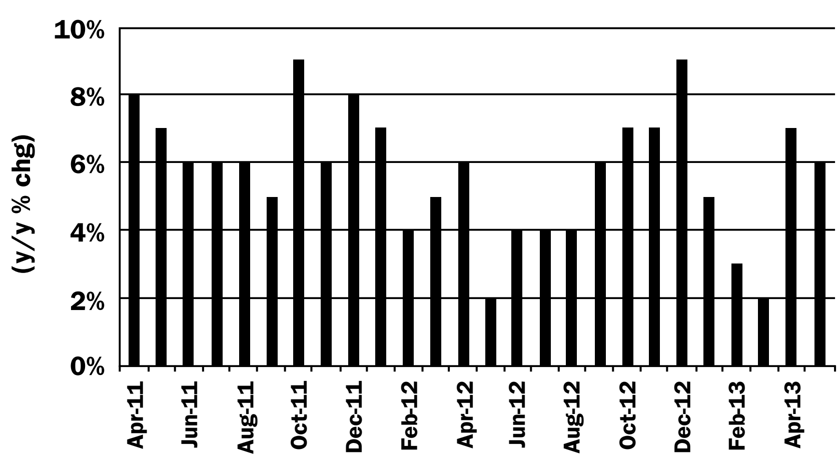
"We're not trying to get into the retail end of the farm machinery business — the only thing we're trying to do is keep our channels open. That's all we're doing. I'm not trying to make a ton of money at these stores; they're not there for that. They're there to keep our channels open to the market.

"If you look at it honestly, that's really all you're doing and you're paying a heavy price to do it, but the price not to do it is even heavier."

In order for shortliners to remain competitive, Fowler says its imperative that their products is exceptional and have a meaningful competitive advantage. "If you've got an exceptional product, then you will always have a channel open to the market, but you have to find how to get there. And you better take your wallet with you when you go because it's going to be expensive," he says.

Jones will begin his tenure at Krone NA on August 1. Fowler says he will remain with the company in a consulting and advisory capacity for at least 6 months.. AEI

Overall Ag Equipment Monthly Sales – April 2011 - May 2013



According to the results of the June 2013 "Dealer Sentiments & Business Conditions Update" survey, ag equipment dealers reported year-over-year sales grew 6% on average in May, down from 7% in the prior month. John Deere saw the highest growth at 9%, while Kubota dealers reported the weakest with sales down 2%. A net 3% of participants categorized May results as "better-than-expected" (23% better-than-expected; 57% in-line with expectations; 20% worse-than-expected), compared to 1% "better-than-expected" the prior month.

Polish Ag Machinery Market Posts Strongest Growth in EU

Last year turned out to be a good one for Polish farmers despite a poor start to the cropping year.

According to the Frankfurt-based VDMA Agricultural Machinery Assn., nearly one quarter of the area cultivated with winter grain by Polish farmers had to be plowed up due to damage caused by frost. But with improving crop yields, solid results with their summer grains, Polish farmers had a much better crop for the year than they had in 2011.

Polish farmers produced 29 million metric tons 2012, an increase of 7% from strong growth in summer wheat, maize and summer barley.

With the EU support measures aimed at the modernizing farming operations and the higher prices for agricultural products, the overall good crop result in 2012 was also reflected in sales of farm machinery. In total, market volume grew by 14%, reaching €1.5 billion — one of the highest growth rates within the EU.

Growing Imports. Imports of agricultural machinery increased by nearly 22% to €1.3 billion. Tractor sales reached a total of 19,315 units, with most in the 75 -100 horsepower range. However, according to VDMA, the strongest demand was for tractors in the 130-160 horsepower range.

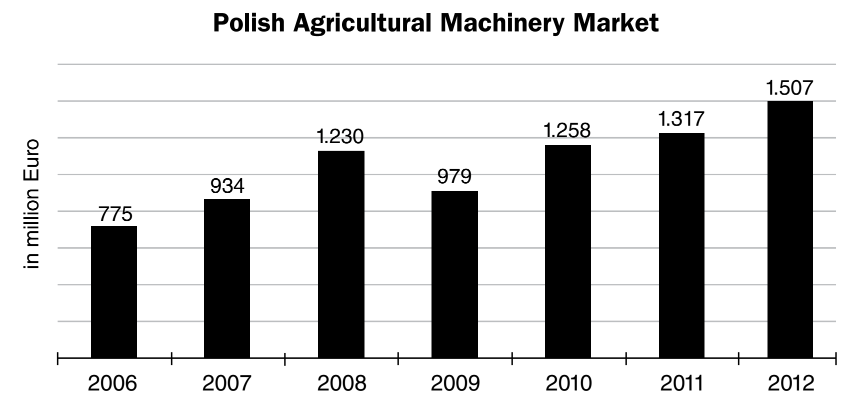
"Besides the Czech supplier Zetor, practically only Western brands play a role in purchase decisions, even though a large number of Ursus tractors can still be seen, especially on smaller Polish farms," the German association reported.

In its assessment, VDMA said, "Altogether, the Polish agricultural sector has developed very positively in recent years. Structural change has set in and led to stronger competitiveness. On average farms are much larger than they were just a few years ago and are well equipped with modern machinery.

Falling Demand. On the downside, EU subsidies from the rural development programs between 2007—13 have been nearly completely paid out or allocated.

"Nearly €10 billion was paid out to farmers and companies — the largest sum within the EU," VDMA says. This signals a a decline in demand because of the expiring support measures and many Polish farms are now well equipped and up to date.

"In the first 3 months, new registrations decreased by 17%. At the moment, a gulf appears to be opening up between the theoretically still strong investment plans and the orders actually placed with dealers. Nonetheless, Poland has established itself as the fifth largest agricultural machinery market in the EU and in the short and long term will have significant demand for replacement purchases of machinery."



Overall good crop results in 2012 was reflected in sales of farm machinery. In total, market volume grew by a 14% reaching €1.5 billion — one of the highest growth rates in the EU.

Source: VDMA

Lindsay Sends Mixed Signals on Irrigation Market

Still riding the wave of last year's drought, Lindsay Corp.'s sales of irrigation equipment rose by 12% in the U.S. to $118.3 million in the third quarter ending May 31, despite the wet spring experienced throughout much of the U.S. Adding to that, the company saw an 88% hike in international sales thanks to a large Iraqi order, growing group revenues 28% to $219.4 million.

While sales were up, Lindsay notes increased rainfall across the Corn Belt diminished the favorable impact of drought conditions on irrigation equipment demand over the past 12 months. The concern has now switched to the impact of delayed plantings and crop yields on crop prices and farm incomes.

"In the near term, we have seen downward pressure on key agricultural commodity prices in anticipation of an improved harvest over last year's drought conditions," said Rick Parod, Lindsay president and CEO.

"However, recent reports cast doubt on the quality of the crop, raising concern over forecasted ending-stocks, particularly for corn.

"In addition, the environment for infrastructure sales remains difficult, although we are seeing indications for modest improvement from recent sales trends."

USDA data released on July 8 showed 65% of U.S. corn in "good" or "excellent" condition, up from 56% a year ago when the drought was beginning to take hold. However, that is still down from 2011 levels, which were near 70%.

"Lindsay gave mixed signals about the irrigation market and characterized the demand environment as 'uncertain,' saying it isn't clear whether record plantings or concerns over crop quality, due to wet weather in the Midwest, will have the bigger impact on crop prices and, therefore, farm incomes," Holden Lewis, analyst with BB&T, said in a note to investors.

Ag Machinery Sales Accelerate in June

North American large ag equipment retail sales accelerated in June, driven by growth in row-crop tractor, 4WD tractor and combine sales which increased 27.5%, 8.4% and 18.1% year-over-year, respectively, according to data released by the Assn. of Equipment Manufacturers. Mid-range tractor sales increased 4.3% and compact tractor sales increased 7.1% vs. the same period last year. Inventory levels continue to rise, though generally supported by continued unit sales growth.

Large tractor and combine retail sales increased 23% year-over-year in June, accelerating from the 16% increase in May. Mircea (Mig) Dobre, analyst with RW Baird, says year-over-year comparisons were positive across all large equipment categories. U.S. sales increased 25% year-over-year, while Canadian sales increased 11%.

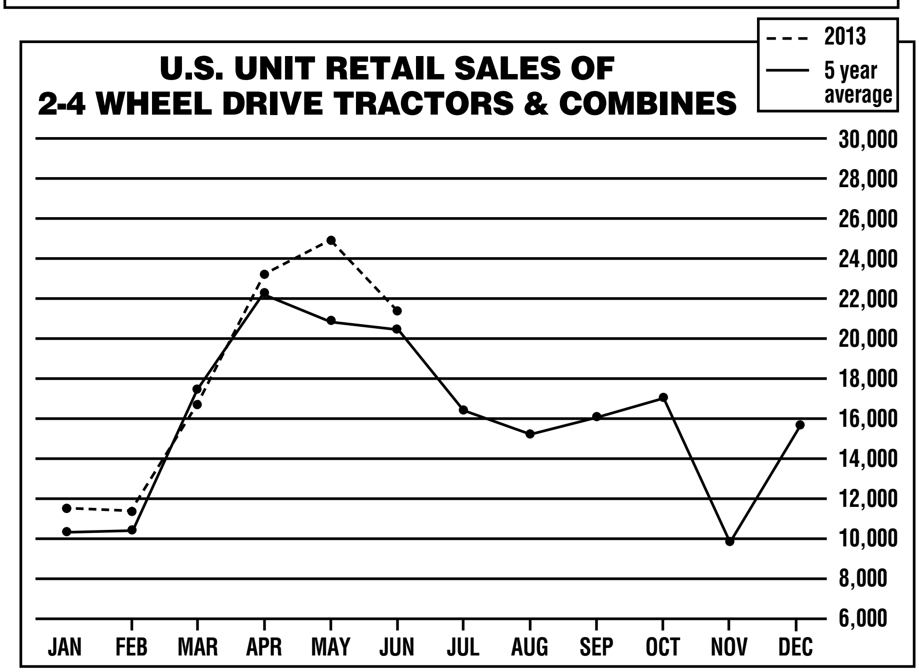
- Combine retail sales continued to grow, posting an 18.1% year-over-year increase in June (in spite of a more difficult comparison) following a 28.6% increase in May. Last three month (L3M) sales increased 34.7% on a year-over-year. U.S. combine inventories were 22.2% higher year-over-year in absolute terms in May (vs. up 24.3% last month).
- Row-crop tractor sales also continue to grow with a 27.5% year-over-year increase, accelerating from the 17.8% increase observed in May. L3M sales increased 24%. U.S. row-crop tractor inventories increased 49.1% year-over-year in May vs. a 54.1% increase in April. June has been a slightly below average month for row-crop tractor sales over the last five years, typically accounting for 7.7% of annual sales.
- 4WD tractor sales increased 8.4% year-over-year in June, improving from an 8.9% decrease in May. U.S. dealer inventories of 4WD tractors increased 14.1% year-over-year in May, while days-sales of inventory was 73 compared to 78 in the prior year.
- Mid-range tractor sales increased in June, up 4.3% year-over-year after a 6% increase last month. Compact tractor sales increased 7.1% year-over-year, down from the 27% increase last month. AEI

JUNE U.S. UNIT RETAIL SALES

Equipment	June 2013	June 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	June 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	11,687	11,013	6.1	55,747	50,169	11.1	56,900
40-100 HP	5,854	5,520	6.1	28,109	26,834	4.8	26,878
100 HP Plus	2,822	2,214	27.5	17,305	13,578	27.4	10,539
Total-2WD	20,363	18,747	8.6	101,161	90,581	11.7	94,317
Total-4WD	454	429	8.6	101,161	90,581	11.7	94,317
Total Tractors	20,817	19,176	8.6	104,332	93,377	11.7	95,766
SP Combines	926	710	30.4	4,590	3,128	46.7	1,831

JUNE CANADIAN UNIT RETAIL SALES

Equipment	June 2013	June 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	June 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,762	1,541	14.3	6,907	6,106	13.1	8,368
40-100 HP	509	579	-12.1	2,856	3,010	-5.1	3,522
100 HP Plus	450	352	27.8	2,636	2,315	13.9	2,663
Total-2WD	2,721	2,472	10.1	12,399	11,431	8.5	14,553
Total-4WD	87	70	24.3	832	786	5.9	619
Total Tractors	2,808	2,542	10.5	13,231	12,231	8.3	15,172
SP Combines	197	241	-18.3	1,007	829	21.5	1,035



—*Assn. of Equipment Manufacturers*

globally. "But CNH and Sumitomo have recently concluded their North American LBX Link-Belt joint venture which is now 100% Sumitomo."

With the goal of being the first or second biggest player in each of its markets would suggest that CE is a likely area for future CNH Industrial moves that would move them up the construction equipment ladder.

Iveco Trucks in NA

Without a presence in North America, it would appear that the CNH Industrial has plenty of room to grow in the truck market, probably through acquisition, merger or a partnership with a truck maker already established in North America.

With revenues of nearly $12 billion last year, CNH Industrial's truck operations are certainly in a much better position than its CE business. Depending on ranking criteria, the Fiat Group falls in at either sixth or seventh place of worldwide truck manufacturers and that's with no significant presence in North America.

It's believed that the merger would lay down a path for CNH to begin introducing its Iveco branded trucks in the U.S. and Canada. Its main competitors would include Daimler AG, Navistar, Paccar, Ford, Volvo, Toyota Group and Mitsubishi. "In all likelihood, this means further acquisitions or strategic alliances. This will likely mean a play for mid- or heavy trucks in North America."

Iveco Trucks has a leading market position in the mid-range in Europe (22% share) and good positions in other regions but virtually no presence in North America. "In all likelihood, this means further acquisitions or strategic alliances.

> ***"If we can learn from our mistakes, then the story of International Harvester is one of the great business lessons of all time...."***

This will likely mean a play for mid- or heavy trucks in North America," says Russell.

Both Catepillar and Volvo Group offer trucks. Cat offers on-highway and vocational trucks through a 50/50 joint venture arrangement with Navistar International called NC2 Global, according to Russell.

Volvo owns Mack as well as Volvo branded trucks. The most likely candidates for a combination that would provide CNH Industrial with a North American base would appear to be with Daimler, which owns Freightliner and Western Star brands; Paccar, with its Kenworth and Peterbilt trucks; or possibly Navistar.

Engine Technology Edge

Russell also maintains that CNH Industrial's Case IH and New Holland brands, both ag and CE, could reap additional benefits in Tier 4 engine technology and a pricing advantages from the merger with Fiat Industrial.

"Fiat Industrial and Fiat Power Train (FPT) continue to be among the leaders in this vital segment of the capital goods industry and CNH dealers now sell and service these engines for FPT Tier 4 products.

Despite the common ownership of CNH and FPT, and with the success of the high efficiency SCR engine technology from Fiat Industrial, pricing to CNH Global apparently was a vexing issue.

The new company softens the impact of engine price increase and guarantees a stable supply. It may mean some further changes where there are not currently FPT components in CNH products."

Lessons Learned?

Russell says CNH Industrial must avoid the issues that led to the downfall of International Harvester, which, 30 years ago, was a market leader in each of the segments — farm, CE and trucks — that CNH Industrial will now compete.

He says a useful primer for CNH Industrial executives is the book "A Corporate Tragedy: The Agony of International Harvester Company" by Barbara Marsh. "It was published in 1985 just before Tenneco purchased International Harvester's ag division and merged it with Case."

He points to two excerpts from the book that CNH Industrial executives and others producing capital goods, should post on their office walls: "There was stiff competition from archrival John Deere, bad relations with organized labor, and a pervasive, arrogant complacency within the company about its unsurpassable market dominance … If we can learn from our mistakes, then the story of International Harvester is one of the great business lessons of all time." **AEI**

The GE Influence at CNH

The CNH Global and Fiat Industrial merger has its roots planted in General Electric's philosophy of market position, according to George Russell, former CNH executive, who worked both the ag and CE sides of the business, and currently an executive partner with Currie Management Consultants.

"This action represents another step by Fiat and the founding family of Fiat to achieve a top positions in each of its markets," say Russell. "This can be traced back to the philosophy of Jack Welch from his GE experience where he stated that each division should be number one or two in each of its markets or they were to be divested."

Russell explains that a former Fiat chairman, Paolo Fresco, had been Welch's right hand man for many years at GE before moving to Fiat where he engineered the purchase of Case in 1999 to create a clear number two position and global rival to Deere in farm equipment. Later, Welch was briefly on the Board of CNH.

The current Chairman of Fiat and Fiat Industrial, John Elkann, spent 2 years at GE before coming back to work in the family business. Elkann is a great-great-grandson of the Fiat founder Giovanni Agnelli and was designated as heir-apparent by his grandfather Gianni Agnelli at a very early age, according to Russell. Elkann is also chairman of Exor, the investment holding company by which the Agnelli family controls several other businesses including the controlling ownership of Fiat Industrial and CNH. Exor owns over 30% of Fiat Industrial.

"Like with many farm equipment dealerships, predominant family ownership explains the 'long view' that is apparent in the positioning and logic of CNH Industrial, which is to position itself for further strategic moves," says Russell.