

## ABB AND CATERPILLAR (A): KEY ACCOUNT MANAGEMENT

*Research Associate Inna Francis prepared this case under the supervision of Professors Winter Nie and Tom Vollmann as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.*

It was December 15, 2004, and Dan Ahern, ABB's newly appointed group account manager for Caterpillar, was feeling confident and excited. He was about to meet Jim Owens, the CEO of Caterpillar, together with other members of the ABB senior executive team – Fred Kindle, Dinesh Paliwal and Greg Scheu.

The meeting progressed uneventfully, with discussions evolving around general business items until Jim Owens turned to his vice president of global purchasing, Dan Murphy, and said:

Dan is here with us today to give you some feedback on how we feel you are doing with Caterpillar.

Dan Murphy started off in a friendly manner:

Well, I have been talking to some of my people and have a few ideas to pass on to you. And in general, the input that I got back was that technically ABB is a very good company – you have good products, you know them well and that is great!

However, Dan suddenly felt shivers go down his spine as Dan Murphy continued:

...But customer-wise and management-wise, there is a big disconnect! As a matter of fact, we were kind of wondering, why you are having this meeting with us today. Because we thought ABB was done with us, because we are kind of done with you!

Dan thought to himself:

What a great start to my brand new job! What is all that about? What do I do next? Well, I have nowhere to go but up...

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## ***ABB***

In 2004, ABB Ltd (ABB), the \$20.7 billion Swiss-Swedish engineering group, was a world leader in power and automation technologies supplying utility and industry customers with products and services. It operated in more than 100 countries, employed about 104,000 people worldwide and had five business divisions: Power Products, Power Systems, Automation Products, Robotics and Process Automation division. Each division was organized into a matrix structure by business unit and by geographic markets (*refer to Exhibit 1*).

Turbochargers was one of the business units within the Process Automation division, which provided customers with integrated solutions for control, plant optimization and industry-specific application knowledge. In 2004, ABB was the world's leader in turbochargers for diesel and gas engines in the 500 kW plus power range.

## ***Caterpillar***

In 2005 Caterpillar, headquartered in Peoria, Illinois, had sales and revenues of \$36.3 billion. It was the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines and industrial gas turbines. Caterpillar's organization had three segments: machinery, engines and financial products.

## ***Role of the Group Account Manager***

Dan reported directly to Frank Duggan, head of ABB's group account management function, as did ABB's 30 other group account managers, each responsible for one key customer. He explained:

Before I came on board, group account managers (GAMs) operated at the level of business divisions, or business units, and were based in a particular market. For instance, my predecessor was from robotics. He would push all the interests of the robotics division and do a good job there. Other business with Caterpillar, including turbochargers got second priority.

ABB clearly recognized the need for its GAMs to represent all parts of the company and to develop synergistic sales opportunities. For this reason, in 2004, GAMs moved to the group level and became responsible for the customer account globally. Dan saw this change as fundamentally important:

I do not have a country manager asking me why I spend my time in Germany or why I have to go to China again. Therefore, I see my customer whenever I need to and wherever they are. This structure has enabled us to better serve our global clients' needs and to gain a better perspective on opportunities for ABB overall.

Dan summarized his role of managing the Caterpillar account:

I see more parts of ABB than many ABB people do and more parts of Caterpillar than many Caterpillar people do. As I cut across these two organizations, I gain a perspective on

what is going on more than many people working inside any particular division in either of these organizations. I am not the product expert in all of ABB's products, but I can spot the opportunities.

### *ABB as a Main Supplier to Caterpillar*

In 2004, Caterpillar represented over US\$67 million in revenue for ABB. The bulk of it – over \$40 million – came from supplying turbochargers, a crucial component that enhanced an engine's efficiency. The turbocharger typically represented about 10% of the engine cost, but it had a profound impact on its performance. The technical performance of turbochargers had increased significantly over the previous few years, as much more air was used in combustion to both increase power and decrease emissions.

Turbochargers were manufactured, designed and engineered by ABB Turbo Systems Ltd in Baden, Switzerland. It was one of the best run and most efficient plants that ABB owned and was the center part of the Turbocharger BU, having another 900 people in sales and service around the globe.

Caterpillar was one of Turbo Systems' top three customers in terms of volume; out of 4,500 turbochargers produced per year, over 30% were sold to Caterpillar generating less than 10% of the BU's revenue.

ABB supplied turbochargers to two of Caterpillar's plants: Lafayette, Indiana and Kiel, Germany. Lafayette Engine Center (LEC) had been producing high speed engines since 1982 and served a wide variety of market segments including marine, mining, petroleum and power generation. The primary difference between Lafayette and Kiel was product size and quantity: Kiel produced very large diesel engines, as big as 12 meters long and 4 meters high, in small numbers.

Caterpillar Motoren GmbH & Co. in Kiel was a world leader for four-stroke medium-speed diesel engines used in ships for main propulsion. Caterpillar had purchased the company in 1997 and worked to integrate its product line with the rest of the organization. In July 2002, Paul Wroblewski joined the team in Kiel as operations manager. In 2004, he became the general manager. He arrived with a solid reputation for establishing profitable operations, which he was well able to demonstrate at Kiel.

Early in Paul's general manager position at Kiel, he asked his management team to identify the problems as they saw them. Very high on the list was ABB Turbo Systems, one of their three turbocharger suppliers. The Caterpillar managers felt that ABB were holding them hostage: They wanted Paul to develop a different source. This feeling was strongly reinforced when someone from ABB visited Paul one day in response to his request for better delivery support. Paul perceived the reply:

You do not understand: It is **ABB** that will tell **you** when you will get **what** product, and **how much** you will have to pay for them.

Paul was seething: He became totally committed to getting rid of ABB as a supplier.

### *Trial by Fire*

In preparation for the December meeting with the CEO of Caterpillar, Dan had visited the Baden plant. At the time, he did not know a lot about this business. Oliver Riemenschneider, senior vice president of ABB Turbo Systems in charge of sales and marketing for six months, had mixed feelings before the meeting. He used to be a key account manager himself before, and Oliver expected Dan to develop new business rather than controlling existing ones. Oliver reflected on their first encounter:

We were not sure why Dan was coming and what his intentions were since we were unclear on the roles and responsibilities of the new group account manager position. We had intensive discussions with Dan. I did not want to have the turbocharger business compromised for any other project. I did not want him to make any promises to Caterpillar without involvement from the BU.

He had to motivate people to work with him – but we had to tell him, do not push us on key issues such as deliveries or prices, we have to make these decisions – and live with the results.

Furthermore, Caterpillar had always been a challenge for ABB, having their own air systems group developing their own turbocharger designs. The service approach of Caterpillar and ABB created conflicts in the relationship, and intellectual property (IP) matters with competitors supplying Caterpillar proved to be an issue. The bright side was that Caterpillar had recently assigned Tom Sandborg as purchasing manager for air systems and already the first meeting had been productive. It was agreed at that meeting to launch working groups overviewed by a steering committee for significant topics. The next challenge was to find a senior manager at Caterpillar willing to accept the role of working with ABB in a steering committee.

Oliver explained the business concept, the organization and expectations to Dan. It was agreed that he would list all relevant people in the BU dealing with Caterpillar, to allow for swift familiarization for Dan.

The meeting in Baden left Dan with the impression that:

- a) things were OK with Caterpillar, and
- b) the Baden group did not want him sticking his nose into their business.

He was, therefore, quite unprepared for the blast from Dan Murphy at the meeting. His initial reaction was:

I decided to be firm and interject myself in the middle of it all. I needed to act quickly and decisively...

He immediately sent an e-mail to key ABB managers summarizing the meeting (refer to *Exhibit 2*). However, his main concern was where the “big disconnect” between Caterpillar and ABB Turbo Systems came from. He decided to pay a visit to Caterpillar in Kiel at the end of January 2005, together with Rolf Schweizer, senior general manager new turbocharger sales.

Paul Wroblewski was not particularly interested in having another visit from ABB. He had already concluded that the company should be replaced as a supplier and was well on the way to implementing this decision. However, being a courteous individual, he welcomed Dan to Kiel. Fortunately, there was exceptionally good chemistry between the two of them, helped by the discovery that they had both been raised in Iowa.

Paul decided to lay all his cards on the table and Dan and Rolf listened. They then began to look at ways of overcoming the existing situation, and how to repair the relationship, with each of them taking on the job of convincing others in their organizations. Paul agreed to drive the steering committee for Caterpillar, which was called the Governance committee.

After returning to his office in early February, Dan found the following e-mail waiting for him from one of the Turbocharger BU Management:

To: Daniel Ahern

Subject: ABB-CAT Working Groups

Dear Dan,

Since we have introduced you to our customer, I understand you realized that we have already actions in place to further improve the co-operation with Caterpillar. During the meeting in Kiel, you agreed to a follow up meeting with Paul in order to remain engaged, which I believe is the right approach and level. Your involvement in the turbocharging working groups or in its steering committee is not required. In order to understand your approach for other ABB product lines and to brief you on our advances, I suggest to meet periodically. Towards that end, let me propose to meet for a first time in Baden after the kick-off meeting of the working groups (date not set yet). We shall inform, i.e. invite you ASAP.

Dan immediately responded with the following e-mail:

Subject: Re: ABB-CAT Working Groups (Document link: Daniel Ahern)

Hello,

Caterpillar is a Group Account and I am the group account manager. I represent all of ABB's activities into Caterpillar. Caterpillar is not "Your" customer, but "OUR" customer. The only way we will be successful is to act as ONE ABB. The current situation with Turbochargers is threatening all of "OUR" business at Caterpillar!

Therefore, it is critical for me to be involved in this process with Caterpillar and with your BU specifically. I believe that Caterpillar will echo my thoughts that my involvement is critical to the Steering committee. I agree that the working groups should work out the specific details on each topic individually and my involvement is not required.

Please give me a call. I will be in my office on Wednesday and Thursday this week and would like to have open discussion with you. This is a critical issue and needs to be resolved ASAP.

Let me know when is the best time for you to discuss our plan forward with Caterpillar.

Best Regards,

Dan Ahern, Group Vice President, Global Account Manager – Caterpillar

### Exhibit 1 ABB Divisions Organization Chart

<p><i>Process Automation Product Portals</i></p> <ul style="list-style-type: none"> <li>• Analytical Systems</li> <li>• Force Measurement</li> <li>• Control Systems</li> <li>• Turbocharger</li> </ul>	<p><i>Power Products division</i></p> <ul style="list-style-type: none"> <li>• High Voltage Products</li> <li>• Transformers</li> <li>• Medium Voltage Products</li> <li>• Power Services</li> </ul>
<p><i>Power Systems division</i></p> <ul style="list-style-type: none"> <li>• Power Generation</li> <li>• Grid Systems</li> <li>• Substations</li> <li>• Network Management</li> </ul>	<p><i>Automation Products division</i></p> <ul style="list-style-type: none"> <li>• Low Voltage Products</li> <li>• Instrumentation</li> <li>• Motors and Machines</li> <li>• Engineering Services</li> <li>• Low Voltage Systems</li> <li>• Variable Speed Drives</li> <li>• Power Electronic Systems</li> </ul>
<p><i>Robotics division</i></p>	

Source: ABB website

## Exhibit 2 Dan Ahern Summary E-mail

12/17/2004 Daniel Ahern

TO: Damien Petticrew, Walter Davidson, Scott Curley Squeri, Erhard Kaessemödel, Greg Scheu, Frank Duggan, Hans J. Egger/USTUT/ABB@ABB\_US01, Ravi Singh/USTUT/ABB@ABB\_US01, Sabrina Miraglia/, Thomas Fetzberger, Thomas Ek, Mats Astrom Roger Bailey, Oliver Riemenschneider, Bruce M. O'Brien Ferenc Remenyi, Rolf Schweizer, Bernd Schankin, Michel Francoz, Dominique Liuzzo To: Oliver Riemenschneider

cc: Dinesh Paliwal, Fred Kindle

Subject: Update - Meeting with Jim Owens

Dear Caterpillar Extended Account Team,

On Wednesday this week we kicked off the GA relationship at Caterpillar in style with a very positive meeting at Caterpillar Headquarters in Peoria, IL. Attending the meeting from Caterpillar was the Chairman and CEO, Jim Owens, and the VP of Corporate Purchasing, Dan Murphy. On the ABB side of the table we had our new CEO, Fred Kindle, the Head of AT, Dinesh Paliwal, the Head of North American ATAP, Greg Scheu, and myself.

During the meeting we discussed some of the relevant business issues facing Caterpillar and in particular their view of ABB. Overall Caterpillar has a solid respect for ABB products and technical expertise. Here are some of the key points made during our discussion:

Caterpillar engineers and technical personnel value the relationship with ABB and respect the level of knowledge exhibited by our people. Caterpillar as a whole has a difficult time understanding how ABB operates in any given country or within any given product group or how we work together. In some cases, Caterpillar had the perception that ABB was not that interested in their business and that we were looking to disengage. Caterpillar management sees value in our relationship and is committed to supporting our efforts to strengthen the relationship.

So you can see we will have some challenges, but we will also have some significant opportunities to change our position within Caterpillar from a supplier to a partner. The objective is to improve our existing relationships and to find new opportunities to add value to Caterpillar and ABB. Dan Murphy stated three keys to moving forward with any supplier at Caterpillar.

Provide strong technical synergy with Caterpillar.

Look for Win/Win opportunities.

Respect for Caterpillar's Business Model of "owning" their customer relationships with the end users.

The next steps from the meeting is that Dan Murphy will provide introductions and sponsor our efforts with the various VP's within Caterpillar. I will begin working with Dan to get these introductions scheduled. Some of the key people are:

- Bill Rohner - VP Electric Power Division
- Bob Macier - VP Solar Turbine
- Gary Stroup - VP Large Power Systems
- Hans Haefeli - VP Compact Power Systems
- Jim Parker - VP Power systems Marketing

As part of the process to move forward with Caterpillar and improve our own teaming efforts, a Group Account Planning Workshop has been scheduled for January 17-19th in Prague, Czech Republic. Some of you will be receiving invitations to join the workshop to help in facilitating our planning at Caterpillar.

Some of the key product opportunities that we have are:

- Turbochargers
- AC Machines - Alternator/Generators
- LV Controls - Breakers, Terminal Blocks, Control Devices
- Instrumentation
- Robotics - Paint, Powertrain and Welding

Thanks again to everyone for your input over the past several weeks preparing for the meeting and setting our initial objectives for 2005. Your combined insight into the account will be important for all of us to leverage moving forward. I look forward to working with all of you to grow our business at Caterpillar.

Best wishes for a good holiday season and great start in 2005!

Dan Ahern  
Group Vice President  
Global Account Manager - Caterpillar  
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