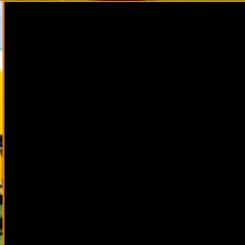


Vermeer®

“While interacting with customers and industry specialists, we collect insightful information uncovering meaning and value impacting future decisions and strategies that drive growth.”



In 1943, at the height of World War II, American farmers were facing a shortage of farm help. Farming at that time was still a very labor-intensive industry. The shortage of workers pushed some innovative farmers to find better ways to work more efficiently. One of those farmers was a man named Gary Vermeer from Pella, Iowa. To help his operation, Vermeer invented a mechanical wagon hoist that made unloading a grain wagon quicker and easier.

It didn't take long for other farmers in the area to ask Vermeer to build hoists for their operations as well. Five years later, with the support of his cousin Ralph, Gary Vermeer built the idea into a business—and Vermeer Manufacturing Company was born.

In the years that followed, Vermeer continued to listen to people and look for new ways to help farmers work more efficiently. The company introduced the Pow-R-Drive hammermill to help farmers grind grain using their tractors' power take-off (PTO). PTO-powered irrigation systems and trenchers followed and helped the company open international markets.

In 1972, during an early-morning walk with a long-time friend and farmer, Gary learned that his friend was planning to get out of the cattle business because of the labor required to put up hay. Within weeks,

Vermeer was testing a large round hay baler prototype—a product that changed the way farmers harvested hay to this day.

Today, the company has grown from a small machine shed to a multimillion dollar global company with more than 2,000 employees, a 1.2-million-square-foot manufacturing footprint and a diversified product lineup that spans multiple industries and includes grinders, brush chippers, stump cutters, compost turners, horizontal directional drills, trenchers and hay balers, to name a few.

A Culture of Innovation

Vermeer's culture has always been one of innovation, but for its first forty years, the process was very informal. As markets evolved, the company became a high market share manufacturer competing in mature, relatively low-margin industries. It wasn't until the 1980s and 1990s that Vermeer determined it was important to start developing a more focused process for innovation.

It started by establishing the company's 4P philosophy of principles, people, product, and profit. To support this philosophy, Vermeer embraced the principles of lean manufacturing, holding its first official kaizen event in 1997 and completing 500 of these events within three years. In 2001, the company introduced lean to its distributors and suppliers. By 2003, the company had completed its 1000th kaizen event.



Implementing these operational efficiencies helped Vermeer weather a significant downturn in the economy in the early 2000s. Following years of unprecedented growth, a devastating downturn in the global telecom industry resulting from the dot-com bust caused a significant decrease in Vermeer sales—and required the company to reduce its workforce by nearly one-third. The lessons learned from that time period prompted Vermeer to develop new strategies to help the company both grow and diversify its product offering.

The new strategies helped Vermeer identify the sweet spot between operational effectiveness and strategic positioning (being *better* and being *different*). This approach has transformed the way Vermeer innovates today. Today’s approach is market-driven, and Vermeer calls it “Market-Based Strategy” (MBS). Vermeer’s MBS process goes beyond tactical-based research processes to help identify new opportunities so that it can be the first to the market with truly innovative products and other solutions.

Strategic Voice of Customer—The View from 30,000 Feet

Vermeer starts the process by looking at the broad picture of an industry or market, identifying trends, needs, strategies, and opportunities for broad-scale technology and business investments. This phase of the process is called the strategic voice of customer (SVOC). Vermeer employees from different backgrounds are brought together and charged with investigating potential

industry and market opportunities. They talk to industry experts in government, trade, and universities. They research published data. They investigate potential strategic competitors. And, they talk to customers—those who own Vermeer products as well as those who don’t. Then they return with a wealth of information.

Because Vermeer is a privately-owned company, their long-term investment in this process—which can sometimes mean sending a team of Vermeer employees overseas for weeks at a time researching potential opportunities—isn’t hindered by short-term shareholder profitability goals. Often a return on their investment can take several years. Sometimes, there is no financial return at all. Regardless, Vermeer believes (and their success in introducing innovative products has proven) that the investment is worth the potential reward.





Value Innovation Curve

Somewhere between collecting information and data and turning it into a new, profitable opportunity, there is a phase Vermeer describes as the “value innovation curve” (VIC). This visual representation rates the key factors of an offering and compares them to the actual offerings being made by competitors in the market. By addressing what customers deem as the most important factors, Vermeer is able to develop an offering that brings value to the end customer. Ultimately, the question in the VIC process comes down to how Vermeer can help their customers be successful.

It’s not always product features that offer value to the end customer. In fact, through the VIC phase, Vermeer has often identified opportunities like parts availability, maintenance issues, safety, training, or cost of operation as the key value offerings. Using this information, Vermeer strives to develop and market an offering that matches the end customer’s needs.

Product Innovation—Product Voice of Customer and House of Quality

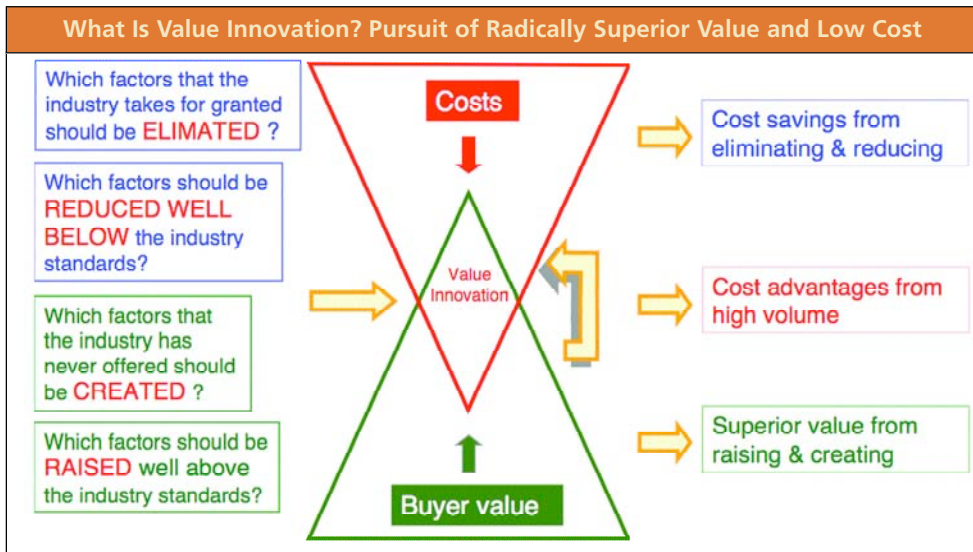
Not every idea makes it off the drawing board. At Vermeer, the ideas that do are defined and refined in a process described as product voice of the customer (PVOC) and house of quality (HOQ). Much of the company’s product development happens here, still using a cross-functional team with members from areas such as engineering, marketing, product safety, production, procurement, service, and parts distribution.

New product concepts are developed with features designed to match SVOC and VIC discoveries. These concepts are then taken to the field for feedback from small groups of Vermeer dealers, customers, and noncustomers. Based on this outside feedback, product design enhancements are strongly considered for incorporation into the product design.

Refining Quality—Quality Voice of Customer

Launching new product can present a variety of difficulties. One example is that although Vermeer products are tested during the prototype stage, real world use by end customers can present different circumstances than those experienced during prototype testing.





The innovation process used at Vermeer depends on gaining feedback from the field—through dealers and end customers. Vermeer describes this “listening” phase as quality voice of the customer (QVOC). The Vermeer product design teams use this feedback to continually find better ways to enhance the product.

Determining Customer Satisfaction

Vermeer takes its Market Based Strategy even one step beyond final product develop-

ment by seeking out customer feedback—both positive and negative—after each new product launch. This “listening” phase of the innovation cycle is unique in that it brings together employees from across the company, from production to executive management to sales to engineering and beyond into a group “lab” setting to determine a product’s customer satisfaction index (CSI).

Participants make approximately 300 calls to Vermeer customers every month. To date, more than 200 employees have con-

ducted more than 7,500 customer telephone interviews. The interviews are designed with a simple single-question philosophy primarily used to determine a customer’s intent to repurchase. But, beyond the obvious benefit of identifying improvement opportunities, the CSI process also puts Vermeer employees in touch with end customers in a way that helps employees understand the importance of customers and their feedback.

Does It Work?

While this process-driven, buttoned-down approach to innovation developed by Vermeer Corporation may seem methodical and complicated, it’s not too different from the approach that Gary Vermeer took with many of his early inventions.

But, does it work?

In the past few years, Vermeer has successfully launched a variety of new products, made several key strategic acquisitions in growing markets, and helped redefine some niche markets based on feedback received through its market-based strategy. And, with in-depth insights into evolving industries and high-growth markets, Vermeer is poised to take advantage of opportunities that its competitors may not have seen coming several years ago. Vermeer Corporation’s investment of implementing its market-driven approach is likely to pay dividends for the company well into the future. ■