Chinese Success in the West

Sam: Following strong sales in Canada, SDLG has announced 3 new dealer locations in Montreal, Calgary, Winnipeg and an additional Ontario location planned for the future. Why do you think SDLG products are so popular in Canada?

Alan: First of all, I'm not sure that the acceptance is not so much better in Canada than in the US. I think that there are really two major factors at play here: the first one is the relationships that the dealer has already established with customers and just if those customers happen to be within our target group. You can see many dealers evolving in different ways and they become stronger at serving one segment versus another. And so, we've been lucky with some of our dealers in Canada that they have built their core on customers than can fall into the segment that we are trying to deal with. So that's the first piece.

Now the second piece, I think it is fair to say that there's a cultural difference in Canada versus the US and in general I would say that Canadians tend to be more… I'll say culturally acceptant. They will accept other cultures the way they are and the US tends to be more expecting cultural conformance. So they have more desire for others to be the way they are here. So I think that makes it a little bit easier in Canada. I should tell you that this is a little bit biased as I'm a Canadian.

Sam: Now I wonder, you mentioned before that your dealers had already latched onto your type of consumer. Could you describe the typical SDLG customer?

Alan: Yeah, the simplest top level is low hours, high reliability. The machines are not working in high-production type environments but they are still expected to be reliable so they start when they need to and you can count on them. Now, within that, there are a lot of different segments that have those needs and farmers are one where it's usually a supporting piece of their operation, it's not the primary piece.

We've also had success in certain industries that have unique characteristics like fertilizer handling where you have very corrosive items that the electronics in the premium machines is really a negative in that type of environment. So the easiest way to see the type of customer we want is usually they've been buying a used premium machine. They've been buying a 3 or 4 year old premium machine so they get to the price point that they like and they have a machine and what we're doing at SDLG is offering an alternative to that premium used market.

Sam: With many companies and governments preparing for the snow removal season, what are SDLG doing to prepare for this? Do you expect this season to be different from those in previous years and what products do you expect to sell the most of?

Alan: The first thing I would say is we don't expect this season to be different from the past. We don't see any reasons why it would be any different. What we do see is that the snow removal application is a very good fit for product because again, it's very low hours utilization but requires high reliability. And, the application itself is fairly simple so it's a very good fit for us. Now what we've been doing really is trying to contact these customers directly because these are customers that have looked for a low cost alternative in the past and have bought used equipment and so the dealers don't know them very well. So we've taken a very focused approach on reaching out to these customers and educating them on what we have available.

Now, in combination with that, we're also promoting through the press and more advertising into those publications to try and make sure that we're making them aware that we have a product that fits their need.

Sam: Earlier this year you spoke about how SDLG was going to model its best practices for product support on the methods of companies like Wal-Mart and Amazon. How have you implemented this? What results have you seen from this?

Alan: The way that this approach is different is primarily parts stocking and distribution. In the premium channel, the manufacturers tend to carry and have a lot of parts stock sitting at the dealers and then they pull from a central warehouse as required. The approach we've taken is to centralize all of our parts stock in Atlanta and then we ship everything overnight air, prepaid to the dealer or to the customer. So we're offsetting the costs of carrying inventory in all the remote locations and we're using the cost savings to use logistics to get the part there the next day, prepaid.

So far the results have been really good. Right now we're running better than 97% of the orders are with the customers within 2 days. And one of our biggest drivers in bringing this product to North America was that the dealers were worried about support, this was really a big deal for them. And so we really went overboard in terms of making sure we had products on the shelf and machines in stock so if we need to take a part of a machine, we can do that. So this approach has been highly visible for us and the results have been really good and what it's done for us is made the dealers more comfortable and so they're willing to support the product. They're not worried that we're going to let them down.

Sam: Has SDLG been successful in reaching parts of the North American market that have been hitherto inaccessible to Volvo's premium products?

Alan: What we're seeing at this point is about 75% of the customers that are buying SDLG have never brought a Volvo. And the 25% that have bought it for a very special application. For example, one of our first machine sales went to a customer that has over 100 pieces of equipment and he wanted a 'yard machine', basically a big fork-lift to move things around and he wasn't going to buy a Volvo to do that so he bought a SDLG.

Sam: Do you think we can expect to see more alliance between Western and Chinese firms in the future?

Alan: It may sound like a copout but I'm not really sure that that will happen. The Volvo culture and the Chinese culture have integrated very well; this has been a great success. But, you can look at other examples even within the construction industry where the relationships have not developed well, where the American culture may not, for example, be a good fit with the Chinese culture and they tend to clash. So, there are a lot of examples that have not worked as well. For me, I would say that successful integration is a lot harder than it looks and Volvo and SDLG have done a really good job of working together but it took a lot of effort to make that happen.

Sam: That's very interesting. In that case, do you think we can expect to see more Northern European and Scandinavian Joint Ventures in China?

Alan: I don't know. I'm sure people are always looking and you're likely right. When people look at the success we've had and how it's helped drive up more acquisitions by Volvo of Chinese companies. So obviously when it's that visible, it's interesting for others to look at.

Sam: Can you tell us a little about yourself? How did you begin your career in the OHV industry and with SDLG?

Alan: As I mentioned before, I'm Canadian, I'm a professional engineer, and I spent 20 years with a company called Timberjack which was a logging equipment company. It was Canadian originally but it got bought by Metso which is a Finnish company. So, during my time with Timberjack, I also spent a few years in Scandinavia in Finland and Sweden. After that, I spent 5 years with John Deere; John Deere bought Timberjack so I came to John Deere with that acquisition and I spent 5 years running a John Deere dealership in central US in 6 locations. For the last 8 years, I've been with Volvo. I started in Volvo as a regional VP looking after the South East and then I moved into commercial management and then this opportunity came along and I was really interested and I started to do this and I've actually been working on this project for about 2 and a half years. So, I think it's also interesting to note that we've done this project for about 18 months before we sold the first machine so there's been a lot of work invested so that we could do it right.

Sam: Incidentally, did you not foresee any potential risks in running with a dual brand?

Alan: I think this is the kind of question that companies will always ask. This dual branding structure that we're using in North America today is unique. We've seen companies that will run with dual brands through alternative distribution networks but you don't see examples where they run through the same distribution. That's something that we're experimenting with here. But all the way through it there's been a very high awareness that we compliment the Volvo brand and not detract from it. So that's probably something that you would want to ask any other manufacturer that is considering this type of arrangement.

Sam: In your experience, do you think it's detracted from the Volvo brand in those markets at all?

Alan: No I think that it's proven itself to compliment Volvo very well. But I would also say that it didn't happen by accident. It's hard to appreciate the subtle steps that get taken from product strategy to business structure. There are a lot of pieces where decisions are made that take into account strategy to make sure that it compliments Volvo.