

CATERPILLAR IN MONGOLIA: STRATEGY FOR AN EMERGING MARKET

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On a beautiful morning in early 2020, Bruce Wagner, CEO of Wagner Equipment Co., a Caterpillar Inc. dealer, was gathering his thoughts in his office. Bruce had been working for Wagner Equipment Co. since January 1977 and had been promoted to president in 1994, replacing his father, Joe Wagner (Honoring the Legacy Campaign 2022). The Colorado-based Cat dealer represented the company in Colorado, New Mexico, and far west Texas. One of Bruce's most incredible experiences was when Wagner Equipment was awarded the first Caterpillar dealership in Mongolia in 1996 after a long search to expand Wagner's business overseas (UPI 1996).

Back in 1993, after the dissolution of the Soviet Union, Mongolia shifted from a communist to a democratic form of governance (Hays 2016). During Mongolia's transition to a new era, Caterpillar (CAT) saw expansion opportunities in collaboration with Wagner Equipment Co. Bruce Wagner, his father Joe Wagner, and Bob Barrows, the Vice President of Operation, visited Mongolia in 1996. Bruce and his team discovered abundant business opportunities, primarily due to the scarcity of Western companies and products in the country. The company decided to make the first move by becoming a Caterpillar dealer in Mongolia. He stated, *"Our goal was to improve the lives of Mongolians and contribute to economic growth by being pioneers in the market while expanding company profit as the economy grows."*

Wagner Equipment had challenges and success since then. During the COVID-19 pandemic, business in Mongolia slowed down. Also, Bruce was getting older, and he needed to decide whether to keep his family business in Mongolia or sell it and move on. He reflected on his journey to Mongolia and how much he and Cat had a fun time there. This emerging market country was risky and yet provided so many great business opportunities.

The Land of the Eternal Blue Sky

Mongolia was famously known as the birthplace of Chinggis Khaan, who ruled half the world in the 13th century (The History Channel 2023). However, this country was so much more. Mongolia typically experienced an average of 257 sunny days annually in a region characterized by high atmospheric pressure—no wonder it was known as the land of the eternal blue sky (Mel et al. 2022). The capital city Ulaanbaatar was the world's coldest capital (Nag 2021). The population of Mongolia was only 3.3 million, considered one of the least densely populated countries in the world (Kästle 2016). The region's total area was 1,564,116 square kilometers, which was more than twice the size of the state of Texas (see Exhibit 1).

Exhibit 1. Geography of Mongolia

Source: Image from Geology.com



Mongolia, located between Russia and China, was the second-largest landlocked country in the world (Sawe 2021). The land had abundant natural resources such as coal, fluorite, copper, and gold. Mongolia had over 10,000 deposits comprising more than 80 varieties of minerals, with around 10,000 exploration findings and several hundred thousand mineral points (IMARC 2023). Mongolia's natural resource reserves were estimated to be worth over \$2.75 trillion (Schuman 2012). Because of this, it was sometimes called *Minegolia* (Shmavonian 2012).

The country's primary exports, including copper ores, non-agglomerated bituminous coal, gold, unconsolidated iron ores, and premium animal hair, substantially contributed to world commerce. Mongolia's GDP was expected to exceed 21 Billion USD in 2025 (Trading Economics). The economy had grown to be 12 times larger than it was when Caterpillar entered the country in 1993. Anticipated average economic growth above 6% in 2025-2026 would further enhance the long-term picture, mostly due to the thriving mining sector (Kushkhov 2024).

In 1995, when Wagner Equipment Co. was offered the chance to establish itself as a Cat dealership in Mongolia, the business acknowledged the significant potential of the nation, which exceeded that of China and Russia (Eddie et al. 2024). Mongolia stood out as a rising economy that was more democratic than its neighbors. Bruce noted, *"Mongolians were more politically open than their neighbors. The country was more democratic and enthusiastic. We liked this country immediately."* Bruce had huge hopes for Mongolia and his business.

History of Caterpillar: The Yellow Iron

Beginning

The Caterpillar brand originated in 1890 when Benjamin Holt and C.L. Best developed the first steam tractor (Serena 2020) in the United States. It was more advantageous to have the farmer labor longer than the horses. In 1904, Holt replaced the wheels from a Holt steam tractor with tracks to help the farmer deal with the soft soil, and the machine crawled like a giant caterpillar (Chris 2019). After World War I, the Caterpillar Tractor Company and C.L. Best Tractor Co. merged to combine their strengths in developing innovative products and establishing strong dealer networks. The Great Depression prompted considerable innovation. In October 1931, the business introduced the Caterpillar Diesel Sixty Tractor and designed a unique Caterpillar yellow color to help the machine stand out (Caterpillar et al.). Within a few years, Cat became the world's largest producer of diesel engines. CAT made its name by developing innovative solutions.

In the 1950s, Caterpillar became a global corporation, selling its equipment and parts across every continent. (See Exhibits 2 and 3.) Renowned for its commitment to environmental and community sustainability, Caterpillar was one of the most innovative equipment companies. The growing demand for natural resources had heightened the need for Caterpillar machinery. Caterpillar had rapidly risen to a prominent position in the mining equipment industry within a short span of time.

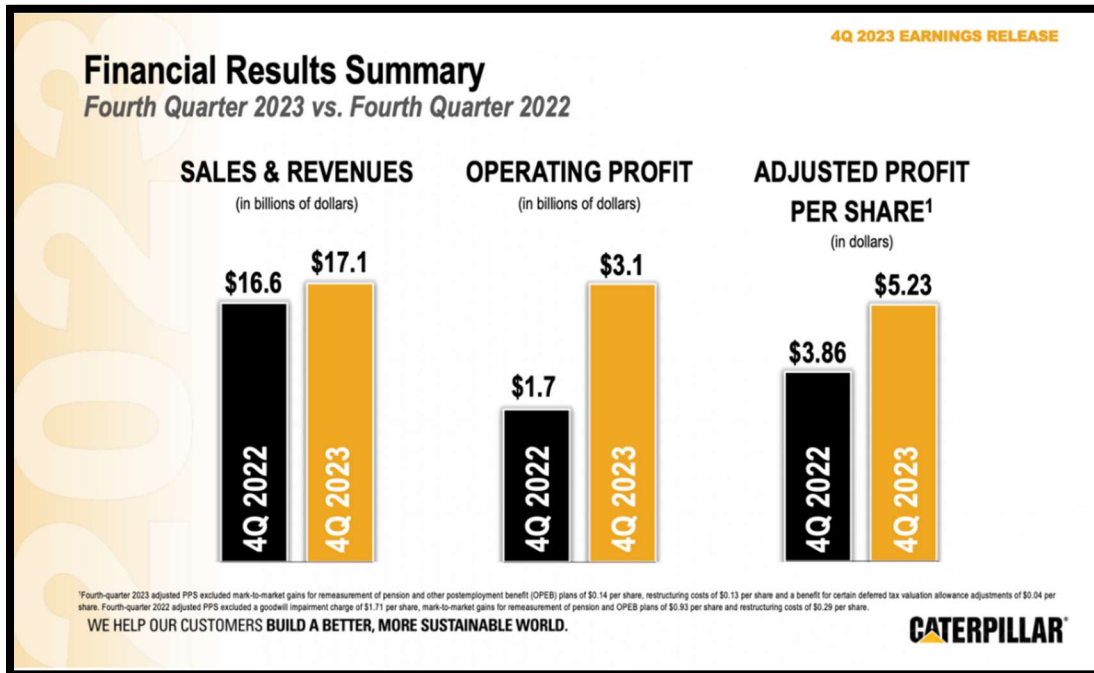
Exhibit 2. Geography of Caterpillar Dealership

Source: Image from Caterpillar.com



Exhibit 3. Summary of Caterpillar Financial Results

Source: Caterpillar.com



Today

By the end of 2022, the company achieved revenue of \$59.4 billion (WFAA 2022). Notably, 59% of this revenue was generated from international markets (Caterpillar et al. 2022). Additionally, Caterpillar was ranked 73rd on the prestigious Fortune 500 list the same year (WFAA 2022). As of January 2025, Caterpillar commanded a market capitalization of \$ 170.4 billion, posing a difficult challenge for competitors like Komatsu, Hitachi, Liebherr, and other mining equipment companies trying to keep pace.

Expansion in Asian Markets

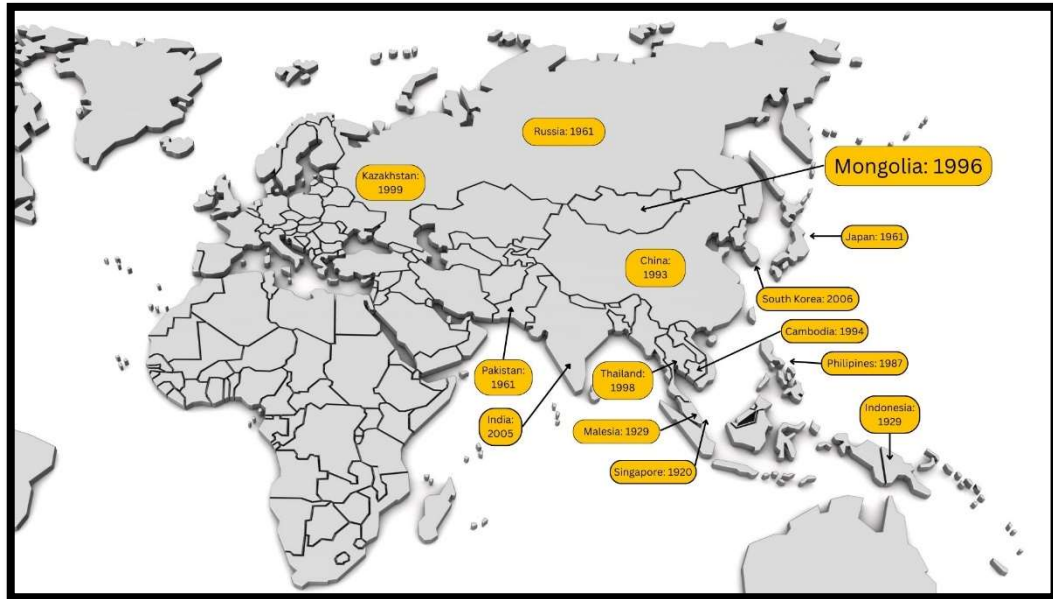
Caterpillar in Asia emerged over several decades with several noteworthy enterprises. Nine Caterpillar machines were instrumental in the Kobe Bay Reclamation Project in 1961 (Caterpillar 2019). This project was the largest earthmoving project in Japan, where the machines were used to move a part of a mountain into the sea. At the same time, some 500 pieces of Caterpillar equipment were sent to Pakistan to start building the Mangla Dam (Stone 2018).

In addition, more than seventy pieces of Cat machinery and six Caterpillar engines were used in Jakarta, Indonesia, in 1982 to build an airfield (Caterpillar 2021). This pattern persisted in 1993 when over 300 Cat machines were brought in for the massive project of constructing China's Three Gorges Dam (Caterpillar 2021).

When the Golden Quadrilateral, a 3,625-mile-long four-to-six-lane road, was built in India in 2005, 220 Cat machines and power sets were deployed (Caterpillar 2021). Thirty-four Cat machines were used to successfully build the Saemangeum barrier in South Korea the following year (Caterpillar 2021). As the world's longest earthen barrier, it was an example of how versatile and adaptable Caterpillar machinery was for various Asian tasks. (See Exhibit 4.)

Exhibit 4. Geography of Caterpillar Dealerships in Asia

Source: Recreated from Caterpillar.com



Entering Mongolia – An Unknown Emerging Market

Before Anybody Else

Caterpillar positioned itself as a pioneer in a market many considered too risky to enter. Some perceived the company's decision as daring, even foolhardy, as it ventured into uncharted territory during Mongolia's significant transformation. Before the arrival of well-known names such as Coca-Cola, Pepsi, Toyota, KFC, Komatsu, Liebherr, Mercedes Benz, Ford, Apple, KPMG, Sony, Samsung, LG, and other brands, Caterpillar was a pioneer in Mongolia's unique developing market.

In the eyes of Rodney Camper, a Wagner Equipment employee who was the Wagner Asia general manager in Mongolia between 1996 and 1999, *"Mongolia held such a unique place; it was sort of the most progressive of the rest of the Soviet satellite states, the country was very interested in moving forward to the West."* This observation highlighted the country's commitment to progress and confidence.

The First Customer

Craig Jepson was the first Caterpillar employee to set foot in Mongolia. In 1993, Jepson assumed the role of Account Manager at Caterpillar Singapore, a regional office. He expressed his commitment to establishing the foundation for CAT's dealership to succeed. One of his first initiatives was the Erdenet Mining Corporation, a state-owned copper mining entity that was the largest company in the Mongolia at the time.

Jepson initiated a study of the local area, examined the layout, started training a couple of Mongolian employees to familiarize them with Caterpillar equipment, and established connections with the leader of the uranium mine situated near the border of Russia and Mongolia. Because of the tremendous effort CAT had put into paving the way for its dealer, two Cat 785 dump trucks were sold directly to the Erdenet Mining Corporation.

Business Plan

In March 1996, the first move was taken by Wagner Equipment Co. after Bruce Wagner, Joe Wagner, and Bob Borrows visited Mongolia. Returning from the trip, Wagner Equipment created a business plan and that would take up to two and a half months to accomplish. Caterpillar approved the plan to start a new dealership in Mongolia.

Wagner Asia Equipment LLC

The executor of the business plan was Rodney Camper, appointed to be the first general manager in Mongolia, who traveled to the country, learning the lay of the land from Craig Jepson. In late August 1996, Wagner Equipment Co. successfully created a new local company in Mongolia called Wagner Asia Equipment LLC (WA) to operate a CAT dealership.

One of the initial challenges was the licensing process. Due to the absence of Western business in Mongolia at that time, the Government was unfamiliar with this kind of setup; it turned out the Government suggested the company register the business license in a way that could avoid tax payments. Wagner Asia had a different perspective on taxes, expressing the desire to set up a firm that could contribute with taxes to fostering Mongolia's economic growth for the benefit of both the company and the nation. There followed a month-long process of discussion and form filling.

Rodney Camper was then invited to participate in a field trip organized by the Mongolian Government. The main reason was to gain insight into the operations of Western companies, particularly in the United States. Learning more about the culture and country's situation was an eye-opening moment, which helped Wagner Asia better understand its clients. It was an amazing opportunity for observation and market research for Wagner Asia and the beginning of building a relationship with its future customers.

Growth

The country's Russian past became apparent after a shift in the governmental structure. Most of the country's mining equipment came from Russia, and most of it needed upgrading. It was primarily the Russian Belaz brand, a rival of Caterpillar. A battle had just started.

The first major deal happened at the end of 1996. A competitive bidding event for mining equipment occurred during a mining expo in Ulaanbaatar, Mongolia. Various vendors participated in the Expo, including the Japanese corporations Itochu, Komatsu, Hitachi, Sanyo, and CAT. Under the leadership of Rodney Camper, CAT secured its initial deal with the mining company in Baganuur, a giant thermal coal mine. The deal included 20 dump trucks, eight bulldozers, and five excavators, totaling around 40 pieces of equipment with an estimated value of \$20 million (MMJ 2023). The victory was due to CAT's advantages in equipment

ownership cost. It was a significant win to kick off their entry into the market. It was a good beginning.

One of Wagner's challenges was Caterpillar's price premium. It was expensive for the mining companies involved. Wagner maintained a price premium because of the training program, assembly knowledge, equipment productivity, service, and application expertise. The firm was not only prepared to offer all required replacement parts and set up a repair facility, but it also launched a successful training program for the customers' technicians. These capabilities set CAT apart from competitors who lacked such comprehensive offerings.

The company acquired an old building for operations and training, which became the CAT dealer's office. Wagner Asia distinguished itself from its competitors by creating a customer support system and a machinery training program. This training program targeted new graduates from Mongolia's technical school and individuals aspiring to pursue a career in CAT mechanics. Wagner Asia adopted a fee structure that charged mining companies \$8,000 per mechanic annually for training services. Wagner Asia built a community proficient in CAT machinery through this marketing approach. This approach contributed to Wagner Asia's success and facilitated individuals becoming more skilled at working with CAT equipment.

Competition

Wagner Asia then positioned these CAT-certified technicians on mining sites nationwide. Those certified technicians were in high demand and became experts in the field. Upon their recommendation, mining companies began to choose CAT mining equipment. It was a brilliant strategic move for Wagner Asia. Growing the population by training a significant portion of Mongolians, the company effectively positioned Mongolia as a nation where expertise in CAT machines became commonplace, creating a natural advantage for both Wagner Asia and Caterpillar.

Competing with more affordable Chinese, Korean, and Russian equipment, such as Hyundai, Doosan, XCMG, Lui Gong, Sany, SDLG, and Belaz posed a challenge, especially as these competitors became increasingly aggressive after 2005. To counter the lower-priced competition, Wagner Asia introduced the SEM brand, Caterpillar's lower-end Chinese manufactured equipment (Caterpillar n.d.). This proved to be a successful move, as the SEM brand eventually emerged as the top-selling Chinese equipment brand in the country, surpassing all its competitors. In 2012, Wagner Asia achieved the distinction of being the top seller of SEM brands in the Eurasia region (Shandong Engineering Machinery Co. Ltd. n.d.).

Communication, Currency, and Corruption Challenges

Misunderstanding

Communication was difficult for a Western company in a country where English was not widely spoken. Driving in Mongolia also created risks and challenges due to underdeveloped roads, infrastructure and the lack of developed rules, regulations, and safe driving practices.

Early in the process, an incident involving an expat worker driving a bus to transport Mongolian employees resulted in injuries. Another challenge on the operational side took place with identifying a technology and training gap; the company recognized that while Mongolian individuals were highly educated, the existing technical education in the 1990s did not cover technologies such as diesel, hydraulics, and electronics.

Managing Corruption

Legal, judicial, and corruption challenges were another factor delaying business growth. The legal system was immature, leaning toward the customer rather than the company. Challenging government policies added to this complexity; the lack of apparent corruption law and the government's newness to democracy contributed to the insecurity and instability of companies

looking to invest in Mongolia. Corruption within the government made things even more complex. Bruce Wagner explained how the government-controlled mines occasionally asked for funds, and rejecting such requests led to lost dollars.

A challenging situation happened when WA could not repossess equipment held as collateral after missing payments from a customer. The tax authority demanded a \$250,000 payment within two weeks for WA to win the case. However, WA rejected the offer; *“though paying the bribe might have been acceptable in the country, it contradicted WA and Caterpillar’s ethical standards”*, Bruce emphasized. Additionally, offering a bribe would set a precedent, and other customers would insist on them. Instead, the company hired a lawyer who charged more than \$250,000 to help with the case; in the end, the company won the case and paved the way to success for many future cases.

Money Problems

Wagner's financial and economic issues were reflections of the complexities of global business development. Inadequate sources of financing for customer equipment acquisitions throughout the company's expansion period resulted in lost sales. To satisfy customer demand, the company identified individuals with gold licenses and introduced a rental system backed by gold deposits. In one gold mining firm, Wagner did not get any payment from the mining company, prompting the company to help the government establish a payment standard like the Uniform Commercial Code (UCC) and repossess mining assets (gold) for collateral. These incidents challenged the company's cash flow. Wagner eventually was able to sell the gold and recoup its losses.

Financial strain and cash flow issues, such as Mongolian banks lacking the funds required for customer purchases, led Wagner to adopt a monthly rental approach. In 2004, Wagner opened

the CAT Rental Store and started offering rental equipment services. In the long term, this decision proved to be highly beneficial, contributing significantly to the growth of the business.

Redefining Strategies for Sustainable Growth

Strategy, Strategy, Strategy

While selling Caterpillar mining equipment was the core of Wagner's business, the company realized it needed more than one revenue stream. WA aimed to maintain sustainable growth. WA expanded into additional dealerships, first with Ford trucks, then Michelin tires and Land Rovers. It also established strategies to support Caterpillar sales in multiple ways.

For instance, WA used a marketing strategy by delivering free or discounted Ford trucks to mining clients who purchased CAT equipment at the target price. Customers then started to request additional Ford spare parts and services because of the vehicles' endurance. This later led to the creation of another business: Wagner Automotive LLC, which later became Ford and Land Rover's sole dealer in the country.

John Karlsen succeeded Rodney Camper as General Director of Wagner Asia and initiated another successful marketing strategy in 1998. At that time, the company had limited sales representatives, and John launched a sales training program. After 2-3 years, the training program was off the ground, and the sales representatives were supported with all the tools they needed; the company began to gain more revenue through the efforts of the expanded sales force.

Generating Leads and Mining the Data

One of the sales-supporting systems was set up as the company started capturing their customers' machine data, which helped them gain a deeper understanding of customer needs through analysis. Initially, the company utilized Accpac, later known as Sage 300; this software served as an enterprise resource planning tool to connect core businesses such as accounting, distribution, warehousing, and manufacturing. It integrated sales, marketing, customer service, and business analytics into a unified information system.

As the first to use the program in Mongolia, Brian Roth, the IT manager, played an essential role by flying to the United States, bringing the program's floppy disks to Mongolia, and setting up the system. This innovative approach was the key to winning the trust of mining owners. The implementation of Sage 300 ensured efficient forecasting and supported the business operations side. It also started generating data-driven leads for its sales and marketing. As a result, the company established a strong relationship with its customers, like Mongolyn Alt LLC, one of Mongolia's largest gold mining groups. It later became one of the most loyal customers of Wagner Asia.

Relationship Marketing

However, little money was spent on advertising campaigns. Bruce Wagner focused on one of the most effective and long-term marketing strategies: relationship marketing. This marketing strategy increased employee and consumer trust and commitment to Caterpillar in Mongolia. Bruce Wagner once said, *"Relationship is the best marketing. We realized that building a relationship in the business was important."*

To build successful relationships with customers, Wagner Asia initiated various marketing events for its customers, including the unveiling of new products, the introduction of cutting-edge technology and services, and more. Since it worked in a B2B market, Wagner Asia did not

need to work with thousands of customers, only a few decision-makers. Bruce Wagner understood the importance of building relationships and building trust. Consistently maintaining year-round activities contributed to steady growth. These events were tailored to cater to various target customers, including C-level executives, technicians, and engineers. At these events, an average of 250 to 400 customers attend to learn more about the world of Wagner Asia and Caterpillar.

During the 2008 world economic crisis, Wagner Asia's business was booming, and Wagner Asia generated \$150-\$175 million worth of orders for CAT equipment. However, dealing with these increasing sales posed challenges for the company. The firm navigated economic changes and faced financial difficulties, especially in 2019, when it experienced its most revenue difficulty.

Future of the Business in Mongolia

Bruce was reflecting on his past, and the amazing years he spent in Mongolia. It was a great journey. He also needed to consider his company's future, as it was his family business. He was planning his retirement. In his office in Denver, he was pondering his next move. He wanted to fly out to Mongolia and surprise his team with his new decision. However, Bruce Wagner has had difficulty deciding on the company's next step; he had three options to consider.

Option 1: Invest In Business and Run as A Cash Cow

The weight of the decision to own the company bore heavily on Bruce, considering the extensive journey of growth that had been charted since its inception in 1996. While grappling with slowing sales due to the COVID-19 pandemic, Bruce found himself at a crossroads. Despite the adversity, he had a steadfast belief in the company's capacity to regain ground after the pandemic. His optimism was fueled by a strategic outlook and foresight, especially with the revenue projected for 2020-2025. This positive outlook was supported by the mining industry's growing demand, which was expected to boost the business to new heights. Bruce remained

firm in his belief that overcoming the difficulties would open the door for unmatched growth and wealth in the company's future initiatives, even though the company's circumstances required grit and resilience. He also needed to prepare and train the next generation, which would be more crucial if he stayed.

Option 2: Sell The Entire Enterprise and Exit Mongolia

According to Caterpillar policy, he had to offer his company to one of CAT's dealers if were to sell it. Typically, Caterpillar did not want a new company with no experience to join as a new dealer. Therefore, he had to work with current dealers. He knew many of them. He even worked with some of them in different regions. They all had excellent experience with CAT equipment. There were many experienced Caterpillar dealers, such as Mantrac, Zeppelin, Barloworld, Al-Bahar, and Finning, who could easily manage the business in this market. However, he had to find a dealer who would be successful in the Mongolian market. Caterpillar could suggest some dealers, and Bruce had some names in mind too. Selling could earn him some cash quickly, but would this be enough to reward his 20+ years in Mongolia? He could focus his business on the United States or enjoy his retirement. At the same time, it would be sad for him to leave Mongolia if he sold his company.

Option 3: Stay In Mongolia for A While, Then Sell the Entire Company

Keeping his business in Mongolia was not an issue. He knew the market very well. Challenges were Caterpillar's high expectations, Chinese brands' fierce competition, and convincing his children and family members that it was worth it. Maybe he should stay and focus on the business for a while. Then, he could sell the company after a few years when it became more profitable. However, he did not know how long it would take - three, five, or more year? Was it better to leave today or in 5 years? Bruce remarked: *"I loved this country and its people so much. I just didn't want to leave soon."* He wanted to contribute to the country's economy, and

thought of his company as a child. Moreover, there were countless mining and construction projects were underway, which meant huge sales opportunities over the next years or decades. While 2019 was ending and Bruce weighed the options of selling or maintaining ownership, there were alternative paths he might have pursued. A few weeks later, in early 2020, as part of his regular business trip to Mongolia, Bruce headed to the airport and departed for Ulaanbaatar to share his plan and decision with his team.

What alternatives did Bruce have for the Mongolian business? What would be his best course of action?



Appendix A. Timeline of the special events and activities

Sources: Author's Note and Company's Website

Year	Event
1993	Caterpillar's account manager, Craig Jepson, visited Mongolia for the first time.
1996	Bruce Wagner and his team visited Mongolia for the first time.
1996	Wagner Asia Equipment LLC was established.
1997	The first major deal with Baganuur, a thermal coal company, was made.
1998	WA introduced the first CAT 769D dump trucks of 40 tons.
2004	WA supplied the complete technical park in the Gobi Desert for the Oyu Tolgoi project.
2004	WA received recognition as one of Mongolia's top 50 firms and a top taxpayer.
2004	WA opened the CAT Rental Store.
2008	WA introduced the SEM brand – a low-end Caterpillar brand to compete with Chinese competitors.
2009	WA introduced the CAT 785C mining dump truck with a capacity of 140 tons.
2010	WA successfully delivered 240-ton CAT 793D dump trucks for the first time to the Eurasia region - Ukhaa Khudag coking coal project in Tsogttsetsii, Umnogobi. This site contains one of the world's largest coking and thermal coal deposits, with an estimated resource of 6.4 billion tons or more than 100 years of production (MMJ 2012).
2010	WA opened the S.O.S Lab, a state-of-the-art chemical sampling laboratory, which was one of the ten laboratories worldwide meeting Caterpillar standards.
2011	WA opened the nation's largest Component Rebuilding Center and a residential camp in the Gobi Desert with a 300-resident capacity.
2012	WA became the top SEM seller in Eurasia.
2014	WA built the Gobi Distribution Center.
2018	WA unveiled the CAT Merchandise Store, a state-of-the-art machine shop, and other projects that amounted to millions.
2019	WA organized the first open-air expo for heavy equipment.
2019	WA became the 18th-best company in the nation.
2020	WA organized the first online auction during COVID-19.

Appendix B. Wagner Equipment Co. Introduction

Source: Wagnerequipment.com

Wagner Equipment Co., a Caterpillar dealer headquartered in Colorado, was established by Joe Wagner in 1976. Wagner's revenue source had been the sale and rental of CAT machines utilized in heavy construction, building construction, mining, waste handling, paving, and more. Wagner had more than 1,000 employees and over 235 field service technicians. In 2022, the company generated an approximate annual revenue of \$924.7 million, operating in the United States, including Colorado, New Mexico, and Far West Texas. In 1996, Wagner Equipment Co. extended its dealership to a new market, Mongolia, forming the Wagner Asia Equipment LLC company, and began to represent the Caterpillar brand. Over the past two decades, through its dedicated hard work and passion for contributing to the Mongolian economy, Wagner Asia Equipment LLC has successfully positioned Caterpillar as a leading brand in construction and mining equipment in the Mongolian market. By the end of 2020, Wagner Asia Equipment LLC had employed more than 700 employees in the country, and total revenue reached approximately \$180 million. Wagner Asia Equipment LLC was the largest American-invested company in the nation, among Mongolia's top taxpayers, and recognized as one of the best Caterpillar dealers in the Eurasia region.



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