

Analysis of bombardier incorporations business due to globalization



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Bombardier Incorporation is a leading company in manufacturing the equipments of the transportation. It deals with the business and commercial aircraft, rail transportation equipments and they also provide the related services. They actually deals in aerospace (BA) and rail transportation (BT). They do the designing as well as the manufacturing of the aerospace products and they also provide the services related to this through BA. Whereas Bombardier Incorporation designs and manufactures the rail equipments as well as they provide the services for maintenance, control system for the rail department and so other things. Bombardier Transport France S. A. S., Bombardier Transportation (Holdings) UK Ltd., Bombardier Aerospace Corporation and Learjet Inc. are the major business concerns of Bombardier Incorporation. Bombardier is one of the biggest railway equipment provider. Though this is a Canadian company, it is doing its business outside Canada and major parts of its revenues comes from outside Canada which is(95% of its total revenue). The company has well control on its total business all over the world.

Globalization:

Globalization means spreading something worldwide. In case of business it is a intention to operate the business globally. This is a part of a centralized business system which intends to operate its business throughout the world. It allows viewing the world as one large market place for product, service, capital, labour and knowledge. As it concerns global operations, there may be several characteristics of a globalized business. there are some phase for a company to be “ global”

1st Phase:

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1. Make a decision to spared their market in other country.
2. Sell a product internationally and do work between international distributors
3. Use talented people in globally

2nd Phase:

1. Work as a borderless company
2. Increase trade from both directions – domestic and international
3. Major segment of international market share for a particular product or service.

3rd Phase:

1. They will have to be more reliable and giving their perfect service to highest level.
2. They will have to acquire communication channel internationally
3. To have a good knowledge about business market it is not preferable to rely not only domestic perspective but international one also.

An overview can be drawn while discussing the business of Bombardier Incorporates they are operating their business in 60 countries at 5 subcontinents in the world. They are associated with so many areas of business such as Aerospace, rail transportation and Bombardier capital. They spreaded their business worldwide day by day. Their first international

contract was with New York City. The contract was about to supply the 825 subways for \$1billion. They also spreaded their business in Europe as well.

What led Bombardier Inc. do their business internationally:

There was a huge change in global economy when the business moved internationally. It brought the whole world together under the branding and knowledge. These can be explained with the help of international trade theories and determinants of trade pattern (Zhang, 2008). International trade theory through which much more knowledge about the global business can be acquired. Those are as follows:

Mercantilism theory: Mercantilism theory was developed by Jean Baptist. According to him, the wealth of the world is fixed. So whenever a country exports more than it imports, it will be highly beneficial for them and they can enjoy the net income or revenue from the export-import process. According to this theory it should be mandatory for every country to pay interest on exporting rather than importing.

Absolute advantages: In 1776, Adam Smith developed this theory. According to this theory, under free trading, each and every nation can be benefited by having a specialized knowledge in economic activities and the knowledge of the nation having the absolute advantages. Accordingly, each and every country should be creating more products. If they export their products to other then it is absolute advantages but there is no absolute advantages if they import.

Comparative Advantages: in 1817, David Ricardo developed this theory. This is nothing but the modification of the absolute theory. Comparative
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advantages theory describes that two countries which are having absolute advantages, their cost to produce some opportunities will be very low. So these countries should have more interest on producing and exporting.

Factor Endowment: Heckscher-Ohlin developed this theory. They focus on most important factors of production. Which are land, labour and capital. They stated that a countries export should based on the exploitation of domestic factor endowment. Generally countries are labour intensive others are capital intensive.

Those trade theories will be very clear by drawing some examples. In case of China and Nigeria, both the countries are having absolute advantages. Nigeria is enjoying the absolute advantage in raw materials especially in oil where as china is having that in rail engineering. So if both of them come to a business deal, China can enjoy the absolute advantages by providing Nigeria engineering services to build up their Rail transport system. Whereas Nigeria can enjoy the absolute advantages by supplying oil to China so that china can boom up their economy.

Challenges of global business for Bombardier Incorporation:

While running a business globally, there might be some challenges as well as the benefits for the company. In case of Bombardier Incorporation in Nigeria it was the same. Some of benefit and challenges are discussed below-

Benefits associated with global business:

Margin of economy one of the greatest benefits for a company, running their business globally is nothing other than achieving the margin of economy.

Bombardier Incorporation has started their business in 1930 and now operating in 60 countries with pride.

Increase sales and profit of the company Bombardier Incorporation is operating their business globally in 60 countries. So they have the more opportunities to have more sales and as a result to have more profits. Their turnover is increasing day by day. In case of 2008, their turnover was US \$109 million whereas it was increased to US \$164 million in 2009.

Expand global market share of the company is running its business in different countries of the world, there is a big opportunity for the company to acquire the market share of the different companies of the world.

Bombardier Incorporation is world's largest rail transport organization and it had captured or in other word it acquired different companies in different countries like UK, Mexico, German etc.

Challenges associated with global business:

Political instability plays an important role in global business and it is a great challenge for a company running business globally. In case of Bombardier Incorporation, they signed a contract with Nigeria to build up modern rail transport system, but it got cancelled when the government of Nigeria is changed.

Security problem is another challenge for Bombardier incorporation.

Bombardier incorporation had some security problem as well in Nigeria. The

local terror may create huge impact on the global business. In case of China, <https://assignbuster.com/analysis-of-bombardier-incorporations-business-due-to-globalization/>

while they were running their business in Nigeria, the engineers had been kidnapped by the local terror and it created a huge impact on the engineering advancement.

Market fluctuation is another challenge associated with global business. It is nothing but the fluctuation in exchange rate, interest rate, inflation. They are directly associated with the business and have great impact on global business. The company's total revenue may get decreased. In case of Bombardier Incorporation, its revenue got decreased by 3% by the year 2010.

Analysis of Organizational Structure for Bombardier Transportation (BT):

Organizational structure is nothing but the allocation of responsibilities to different associated departments for the achievement of the goal of the company. The organizational structure is associated with the mission, vision, goals of the company. It is the thing which will lead the company to implement their strategy successfully and to become a successful one.

Bombardier Transportation uses a common organizational structure. They are having four divisional areas of which three are product areas and five functional areas. Bombardier's strategy and operational plans depend on the president and chief executive officer of Bombardier Transportation. The president and CEO also got the responsibility of executing the board's resolutions and policies and delegating long-term strategic business plans. Bombardier Board of Directors having 13 directors where eight directors are independent. They

are using this type of structure for the better uses of their resources. It can be shown by a graph-

Figure: Organization structure of Bombardier Inc

President

Passengers

Locomotive and Equipment

Services

North America

(BTNA)

System

Rail Control Solutions

Human Resources

Communication & Public Affairs

Chief Information Officer

Strategy

Project Management & chief Technical Officer

Sales & Business Development

Operations

Health, Safety & Environment

Finance

Contracts & Legal Affairs, Intellectual Property Rights, Bid Approval & Claim management

Structured Finance, Treasury, Mergers and Acquisitions

Source:

All the arrangements for the organizational structure of Bombardier Transportation are done very well. In 2007, Bombardier Transportation established a CSR committee. The committee supports and oversees the implementation of bombardier inc.'s CSR commitments. They got five task forces are charged with managing the following issues: energy efficiency of Bombardier transportation and products, CSR along the supply chain, human resources and stakeholder engagement, and sustainability. They got target to improve their performance in specific site and action. Like management system, environment and health and safety issue.

Corporate governance of Bombardier Transportation ensures proper management of their business, increasing sustained profitability and shareholder value. They maintain strict compliance among their governance related reporting and regulatory requirement. They also maintain highest ethical standards. For the proper operation of the business the company has three stock divisions : The American, Asia pacific and Europe.

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The company is doing business in Aerospace area such as business air craft, commercial air craft, jet air solution, specialized aircraft, aircraft service and training. And the other major area is Rail Transportation-rail vehicle, boggies, rail control system and so on. And the last but not the least is Bombardier capital such as inventory, railcar etc.

Critical evaluation of contract between China Railway and Nigeria Government:

China and Nigeria had a contract between them in 2006. It was about to modernise the Nigeria rail transportation system By China to connect 36 major cities situated within 4846. 6 mile. It was very important project for both the countries. Several important factors faced by China in Nigeria are discussed below-

In terms of Risk,

Political instability is one of the resistances in the way of development of Nigeria. According to the change of the government, so many corporate decisions are to be changed. As for example it can be say, China had a contract with Nigeria in 2006, but when the new government come in 2008, the ministry for transport cancelled the contract.

Security and Corruption is the hindrance for any country to be developed. In case of Nigeria, it is so bad that if any foreign investor comes to invest in Nigeria, they need to pay huge amount of bribe money which has bad impact on the contract implementation. The foreign investors feel insecure to invest in Nigeria due to the local terror kidnapping the foreign employers. For this Nigeria is lagging behind in case of development.

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Cultural Aspect:

Technological impact: This contract was very effective one for Nigeria Government. For the implementation of the contract China has developed technological sites which includes communication way, media, energy etc as well as supportive industries of rail way, which greatly impact on Nigeria economy.

In terms of Financial Resources for Nigeria:

Economic development Nigeria: China got the contract with the Nigeria government for the modernization of the rail transport system of Nigeria. This contract had a great contribution to the economic booming of the Nigeria government. The rail system connected 36 major cities of the countries, which leads their transport system to be high up. 36 trains are operating per day in different cities as well as 40 million transports per year.

Benefits of Nigeria: As Nigeria got the US \$2. 5 billion, they got the chance to modernise their infrastructure. It brought a huge change in Nigeria.

Economic booming in China: China was highly benefited by this contract as they got the raw materials as oil for the production of their cheap products. And it leads them to economic booming.

Financial benefits of china: The contract was made for US \$2. 5 billion as a loan to Nigeria by China with the interest rate 2. 3%. As a result China got the financial benefit from Nigeria.

Analysis of contract with generic performance:

Ansoff Matrix

A matrix was presented by Igor Ansoff which gives focus on the company's products and its market. It gives the idea about the existing products in existing market as well as the new products creating the new market. The matrix is shown below:

Ansoff Matrix

Existing Products

New Products

Existing

Markets

Market Penetration

Product Development

New

Markets

Market Development

Diversification

Market Penetration: Whenever company wants to spread in a market, it needs to follow some penetration strategy. As penetration strategy can

influence many of its resources and capacities. When a rival company reach to its capacity limits, there may be chances of growing the market shares.

However, Bombardier market has limit of penetration and whenever it gets its saturation point; the company should follow another strategy to exist in the market and to continue its growth.

Market Development: Market development means increasing the business of a company in an existing market with its products as well as to attract the new customers. The market development includes spreading the market to international level in new geographical areas to attract new customers (Lynch, 2003).

In The Bombardier Incorporate has expanded its business internationally to grow its business.

Product Development: The product development is associated to the existing customer rather than the existing products. A new product can be introduced to the market to its customers to build up its strength depending on their taste. The product is unfamiliar and the market is familiar. This is a achievable territory too.

It can be said that Bombardier always developing their product from very beginning. In 1907, they first introduce to the market by snow vehicle and then in 1937, successfully they launch B7 snowmobile and then again B12 snowmobile.

Diversification: Diversification means inclination of a company to a new business deviating from its core competencies. It may be a suicide cell for <https://assignbuster.com/analysis-of-bombardier-incorporations-business-due-to-globalization/>

the company as it is to be introduced to the new market. It requires the market survey, market development as well as the product development. This is the most risky strategy of the company to follow. But this high risk may be diminished by the high value return to the company.

In 1986, Bombardier speared there business in Europe and in that time they was world largest rail equipment and service manufacture company but in that year they entered aerospace industry. So Bombardier company diversified in new business.

Strategic method of Bombardier Transportation to enter in Africa and South America:

Business expansion implies the increase the operation in different market.

When any business are successes in present condition, then try to expand in broader area. There are several ways to expand business, which are discussed below-

1. Joint venture: Joint venture is a contractual agreement between two or more parties for operating business. In joint venture both parties equally invest their capital, time, and effort in business and both parties agreed to share profit and loss of the organization (www. investorwords. com).

2. Merger and Acquisition: A merger is a consolidation of business or combination of two businesses to form a new business. In a merger, combination between business to be equal. On the other hand, acquisition is a acquired a business or purchase by another company. In acquisition, new business is not formed (www. quickmba. com).

3. Strategic alliance: A strategic alliance is short term contractual agreement between businesses to purchase pursue particular goal, but both business are logically doing business individually. The main purpose of strategic alliance to be strong economy scale, achieve critical goal, reduce competition, etc (www. 12image. com).

4. Organic growth: organic growth refers to expanding business using own resources and asset. Organic growth does not refer to expand business by merger, acquisition and other strategic way. It is natural expansion of business (www. ehow. com).

There are single strategy are not suitable to enter African and South American market. To expand business in Africa and South America, it is depend on the competition, market condition, and economic condition, accessibility of respective market. There are several strategic methods to expand Bombardier Transportation in Africa and South America are discussed below-

Strategy to enter Africa:

Bombardier Incorporation is expanding its business day by day. Whenever it wants to enter into a market, it needs to do some survey. In case of Africa, the Bombardier Company (BT) may have a bigger market to be entered. Africa's infrastructures are not so good and well developed. So if Bombardier Transportation wants to enter in Africa specially in West Africa (like Nigeria, Ivory Coast), the strategic plan which needs to be followed is none other than organic growth. It will be easier to enter into west Africa following organic growth as

1. The infrastructure of the West Africa is not well furnished,
2. There is no competitor for BT
3. BT can have a lot of opportunities there.
4. They will not have to follow any usual structure for the entry to West Africa.

If the BT follows the Organic Growth strategy for entry in West Africa, they can have some benefits such as they can control the business according to their business goal, there will be no cultural hazards. Moreover, they can start as a newly set up business (www. answer. com).

But in case of South Africa it is little bit tough to be entered and to start business as they will have to face competitors like SE, BEE, AA. In this case the strategy needs to be followed is Merger and Acquisition rather than organic growth. It will be quite beneficial and cost effective (www. emita. org)

Strategy to enter South America:

South America especially Brazil is a good market for BT as this is the most emerging country for future expansion among the eight countries. BT is doing its business in Brazil as a market leader till now. So for further expansion of its business in Brazil, it is preferable for BT to follow the Acquisition Strategy. As a market leader, alliance or merger will not be suitable for them. (www. theglobeandmail. com)

In case of Venezuela, Argentina and Peru, joint venture will be the sweetest strategy to be followed for the expansion of the business for BT. To enter into a new market which has the same product, it is advised to follow the joint venture strategy to acquire the market share as this will lead to some beneficiary things-

It will help to access a new strong position in a new market as well as the network distribution.

Partner will also be responsible for taking risk and cost effects

It is a easy way to get skilled staff, technology, and finance

In case of travel industry, joint venture is the most familiar to be adopted to expand the business in a new market.

So from the above discussion it is very much clear that for business expansion and adoption of the business strategy, it totally depends on the opportunities, size of the market, competitors, local rules and regulation and moreover on the company's own strategy.