Acquisition of an aircraft manufactory management essay

Environment, Air

In this section, Balogun & Hope Hailey (1999) (cited at Johnson and Scholes, 2002) and leadership theory (Handy 1993) will be use to analysis the evaluation of the challenges faced by Rolls Royce acquisition of a competitor. 9

Introduction

Rolls-Royce was established by a small group of employees for engine in 1981; today the brand means more than engineering excellence (Roll Royce website). Simon Robertson was Chairman from 2004 to now (Rolls-Royce Annual Report 2009). By the mid 1980s, a headquarters was set up in London. The company has four different ancestral companies and products in Bristol, Coventry and Derby. There are several allied group at Hucknall, Leavesden and in Scotland at East Kilbride and Hillington (Roll Royce website).

Roll-Royce has four key markets includes civil aerospace, defense aerospace, marine, energy and nuclear more recently. Rolls Royce’s main rival is GE Engines. Rolls Royce was better position than its competitors as most of its engines are relatively new. Analysts predict that airlines are likely to ground older planes, leaving Rolls Royce with the lucrative spares and maintenance market. (Walker, 2010)

Rolls-Royce revenue are increased ¿¡916 million from 2008 to 2009. The revenues are grown from three main market, including marine market increasing 17% arrived at ¿¡2589 million, defense aerospace add 19% arrived at ¿¡2010 million and the most raise at 36% in energy businesses had a strong performance in 2009, which from ¿¡755 million to ¿¡1028 million with revenues up by 36 per cent to over 1 billion. The revenue from civil aerospace business was decreased 21 million from 2008 to 2009. Because of the group maintains that a number of currency cash balances throughout of the whole year. The significant foreign exchange rates in 2009, and cash balances were reduced ¿¡141 million by retranslation at end of the year and hence total cash flow was dropped at ¿¡(183) million(Rolls-Royce Annual Report 2009).

Analysis of the Current Business Environment Affecting the industry

Macro-environment

The PESTLE analysis (Appendix A) will forces on civil aerospace engine sector. Under the economic recession that is directly influence on the civil aerospace engine sales and redundant some staffs. But for the future view, the governments supported from R&D. Aerospace industry trend is expected to receive large orders for civil aircraft mainly from the emerging Asian countries, such as China, India etc. Much of the regulations are followed by International Civil Aviation Organization. The aerospace industries put the money on new materials finding and using, in order to reduce the climate changes, and innovated to reduce the noise. In future trends, aerospace industry needs to tackle the problems of climate changes and engine noise.

Joint venture is the normal way in order to developing industries; hence the revenant laws will be followed.

Micro-environment

Porter’s Five Forces analysis (Appendix B) described that the threat of entry in civil aerospace engine is lower, because the industry needs high technology machine and high skills of employees to using and it is quite expensive for entry the industry. Threat of substitution in aerospace engine industry also lower, because finding new materials or new technology to replace is difficult or quite expensive.

Aerospace engine industry has several suppliers; they have the choice to find out the best suppliers, such as there has several material suppliers in existing market, the engine industry have higher power to choice the quality and negated with the price. It can be influence on the industry compatibility but not strongly. Hence, there is Low to Medium power of suppliers.

The power of buyers is quite strong, which from medium to High power of buyers. It is influence on the industry, for example prices, technology training, and the repair and overhauls expertise of whole industry supply chain system and dedicated support of established worldwide customers. The industries have the large commercial buyers and have huge influences on industry revenues.

It is medium to high for the competitive rivalry in aerospace engine industry; there has several existing competitors, such as Hampson Industries;

Honeywell International; Safran; and GE etc. Although it is difficult to entry and substituted in this industry, some of these competitors have stronger engineering, manufacturing and marketing capabilities than Rolls-Royce (Datamonitor, 2009).

Main opportunities and threats

For Aerospace industry, the current threats are financial crisis and the barrier entry. The industry requires high technology and finds new material in order to reduce the noise and climate changes. ‘ We expect to grow the market share by exploring new geographic location in 2010 and by increasing the product portfolios’ (Metal central news 2009)

It is difficult and more expensive for the innovation of new technology and finds new material for using within the aerospace industry. More recently, aerospace industry is increasing slowly in Europe countries. But there are still has the opportunity in Asian market, such as China and India etc (ICAO annual report, 2008). The industries are suggested the government to reduce the barrier entry into the market, due to increasing technology and find out the new materials (BBC News, 2009).

Technology has the opportunity for industry developing in the future. Current technology was complained by several organizations, such as Greenpeace etc, it has published the second edition of the Energy Revolution scenario, which shows a global plan for a sustainable renewable economic future. It shows where the industries need to be to avoid a climate change disaster (Greenpeace, 2009). Under the pressure of those organizations that effects on the developing new technologies, due to reduce noise and climate changes. It still has the threats in entry barriers; lower barrier can help industry to find other materials or technology innovation, but not sure is the best way.

Analysis of Rolls Royce Strategic Capabilities

Roll Royce strategic capabilities analysis will be followed by Gerry et al (2009), which states the way of diagnosing organizational capabilities includes analyzing value chain to understanding the value to their customers; and resources to the relative performance of organizations. At the end of this section the summary of strengths and weaknesses will be given.

3. 1 Value Chain Analysis (Appendix D)

Primary activities

The company is a leading supplier of civil, defense, marine, and energy. From the value chain primary activities shows that Rolls Royce has inventory control system, equipment maintenance, for finished engine products will to their inventory, and then distributed to their customers. Customer support, repair service, and training will be given for customers.

Qualities service

Corporate Care is engine maintenance cost programme available in the market for Rolls-Royce engines because it includes the experience and technical excellence of the engine manufacturer, the repair and overhaul expertise of Rolls-Royce, and the dedicated support of an established worldwide customer support organization. It can reduce the risks and costs maintains, reduce capital investment for fewer spare parts and tools, it is benefit from a world-wide network of support focused on the needs of corporate company operators. The network is always for 24/7.

Strong orders

The company has recorded increase in its order book. Such as civil aerospace engine total order book increased at a compound annual growth rate (CAGR) of 21%, from ¿¡35. 9 billion in FY2007 to ¿¡45. 9 billion in FY2008. Strong order indicates significant demand for the company’s products in the market. Rolls-Royce, the engine manufacturer, has won a $2 billion (£1. 2 billion) contract, with United Airlines placing its first new aircraft order in 12 years (The times, 2009). It also assures a stable flow of revenues in the medium term period.

Support activities

Technology Development

For support activities technology development are directly concerned with new technology to reduce noise and new material improvements to reduce climate changes and increase costs efficiency. There are some relevant programmes in some university in order to improve the new technology development and high technology employees training and recruitment. Because of high technology that skills training will be given for their staff.

Both GE and Rolls Royce have invested more in research and development. General Electric has announced it will spend six billion dollars between now and 2015 on innovative healthcare technology (BBC News, 2009).

Human Resource Management

Rolls-Royce has registered comparatively strong revenue per employee. During FY2008, the company recorded revenues of ¿¡9, 082 million with a total of 39, 000 employees. The revenue per employee of the company stood at $432 (Rolls Royce Preliminary Result, 2009), which is higher than that of its close competitors GE. The revenue per employee of GE stood at $331 (GE Annual report, 2009) significantly lowers than that of Rolls-Royce. Relatively strong revenue per employee of the company, as compared to its competitors, indicates stronger productivity.

Firm infrastructure

The main competitor General Electric (GE) report shows that energy Infrastructure segment revenues decreased 4%, or $1. 4 billion, in 2009 as higher prices ($1. 3 billion) were more than offset by lower volume ($1. 6 billion), the stronger U. S. dollar ($0. 7 billion) and lower other income ($0. 5 billion), primarily related to lower earnings from associated companies and marks on foreign currency contracts. " GE Capital losses seem to have peaked… although commercial real estate continues to be challenging" said by BBC News (2010). Because of revenue mix and higher R&D, Rolls Royce has lower profits (BBC News, 2009). There has challenging for Rolls Royce in R&D department underlying economic downturn.

Main Strengths and Weaknesses

The main weakness for Rolls Royce was lack of inventory. Rolls-Royce has been receiving higher orders in the past few years. Strong order indicates significant demand for the company's products in the market. At the mean time, it puts higher pressure on the company's that controlled inventory. The company's inventory has increased at 19% at compound annual growth rate (CAGR) ¿¡1, 845 million in FY2006 to ¿¡2, 750 million in FY2009. The inventory turnover ratio declined from 4. 5 to 3. 6 from FY2006 to FY 2009. The lower ratio states poor sales and excessive inventory conditions. It describes the company are under the pricing risks from their competitors. It has quality service Engineering and Product Support for after sales, the aim of providing the customer with the right training, includes current service operations, maintenance practices and trouble-shooting procedures.

The company has a widely geographic. Rolls-Royce primarily operates across regions, such as Americas, Asia, Australia, Europe, Middle East and Africa. The diversified and fairly spread revenue ensures that the company does not rely on any one market for a majority of its revenues, at the mean time, it reducing its business risk in the highly variable industry. Investments in research and development are major to take advantage of the expertise on their in-house know, and the constant searching to effects on the capabilities of business partners, also influence on research funds and leverage the applied of needs in each global markets. R&D department and plays core competency role lead to the company. The company has high relative for employee productivity. It also assures a stable flow of revenues in the medium/long term period. Quality services provide Rolls Royce has distinctive capability to competitive with competitors. (SWOT analysis summary in appendix C)

Evaluate of Rolls Royce possible future strategies

There are two future strategies using in the future, one is acquisition of an aircraft manufactory and the other is acquisition of a competitor. Ansoff's matrix (Richardson and Evans, 2007), and Suitability, Feasibility and Acceptability (SFA) (Johnson and Scholes, 2002) analysis will underling in this section.

4. 1 Acquisition of an aircraft manufactory

Rolls Royce was one of the aircraft suppliers (BBC News, 2007). It describes a related diversification in vertical forward integration strategy with Rolls Royce. It is more suitable for Rolls Royce current position. The company core business is engine service; it will help extending core along the supply chain to improve information based and strengthen competitive position. Due to explore new competence that the company investment in new arena. Because of aircraft suppliers, the company has more necessary resources to supported, such as technology and finance. Aircraft industry more likely to engine industry, which has lower competitive rivalry in aircraft manufactory because of high cost and high technology, it also has high profits for Rolls Royce entry into this area.

There is the different area, management styles are different, and it is more risks to facing for the company. Under economic recession in 2008 that aircraft industry market shares are decreased, hence, the writer thinks this acquisition is not as the right time and right cost.

4. 2 Acquisition of a competitor

Rolls Royce was the famous engine company; acquisition of their competitor's strategy the major is market development and market penetration. This strategy is suitable for company current conditions. Through the economic downturn, the shares are decreasing and market declining, in order to maintain market shares, acquisition of competitors is the right time and right costs strategy, which can build on strengths through the innovation and continued investment. It is medium to lower risk by exploiting current strategies. The company tries to range widely market from the same country (market development) or go abroad (market penetration). It will help them to extending their current supply chain lines and improving their market shares without increasing competitive rivalry.

Rolls Royce share price is starting to reflect the very long-term visibility of future profits. But the valuation hardly looks over-generous for one of the world's great manufacturing businesses. Unlike Cadbury, Rolls Royce are lucky, the Government has a golden share in the company (Wighton, 2010). The secret is a long-term strategy that has at last come good Sir Rose, who's Rolls Royce years long-serving chief executive, he states the benefits of expanding after-sales service rather than relying solely on sales of new engines (O'Connell, 2009). Although the company faces to change or adoption the culture problems at acquisition, there are more benefits and lower risks than acquisition of aircraft manufactory; the writer is recommendation of company acquisition for competitors.

4. 3 Alternative strategy

Rolls Royce could be use strategic alliance to compete with their rivalry. The alliance is significance to continue company parent firms' of current and anticipated core businesses, markets, and technologies (Parkhe, 1993). They may share the resources of products, distribution channels, manufacturing or inventory capability, new product funding etc. through the alliance, the alliance aimed to get the benefits that will be better than individual efforts.

5. Evaluation of the Challenges Faced by Rolls Royce as it Implements Strategic Change

In this section, Balogun & Hope Hailey (1999) (cited at Johnson and Scholes, 2002) and leadership theory (Handy 1993) will be use to analysis the evaluation of the challenges faced by Rolls Royce acquisition of a competitor.

Changing strategy

Followed by Rolls Royce acquisition with their competitors, some of things need to evaluate and implement change. Rolls Royce acquisition with competitors is beneficial for the nature of change in an organization to be incremental. At this way, it will build for skills, routines and beliefs in the organization. Hence, the change is efficient and seems to a winner with their commitment (Johnson and Scholes, 2002). It not needs to fast to change it, because there has several existing rules or aspects of their original organization, and focus on earn the profits with organization. For engine industry, this not goes fast with new technology growth or finds new material to use. This will be aspect their experts has diversity of experiences, views and opinions with an organization, but supposing that organization has followed a strategy with Rolls Royce, and leading to a very homogeneous way of seeing the world.

Rolls Royce needs to select the acquisition company system which are better or suitable for Rolls Royce, and improved it. The aim to company acquisition is that they want to produce their product in the world wide, and get more or new markets. At the mean time, supply chain database needs to improved, operational data technology needs to improve. The company also needs to improve their utilizing global support network applying by the industry development.

Leadership Analysis

Mr. Robertson is Independent Non-Executive Chairman of the Board of Rolls-Royce Group PLC in 2005. Robertson was appointed to the Board in 2004 (Rolls Royce website). His appointment comes at an important time for Rolls-Royce with the UK aero-engine maker having just been selected to provide Trent engines to the launch customer for the new Boeing 7E7 Dream liner. Based on his points, Rolls Royce has also won the lion’s share of orders to power the new Airbus A380 super-jumbo (Harrison and Michael 2004). It is show that he has very knowledgeable in this specific area; he can provide leadership in virtually in the situation.

Robertson was a big Tory donor; the Conservatives would work with Rolls-Royce to develop strategies for a " manufacturing revival", in a sign of his party's determination to find the corporate vote with business-friendly policies (Eaglesham, 2009). Rolls Royce has initiative new economic strategy based on the foundation stone of the government policies. This is defined by Robertson (2009) " What does this mean? It is includes research and innovation; education and skills." This strategy is benefits for Rolls Royce future development; it is supported by government to improve transport, research and innovation, and education and skills (Eaglesham, 2009). It is illustrates the leader has the general style of leadership that is appropriate to the organisation and the context.

6. Conclusion

Rolls Royce has a good company performance, although there has some risks facing in the company under the economic recession. Rolls Royce has also expanded its energy and marine businesses in recent years, it also expects a pickup in sales as new aircraft such as Airbus's A380 and Boeing's 787 move into full production mode after years of hold-ups (Wilson, 2010). New product and worldwide range decision makes challenging and opportunity for the company. Strong leadership management leads to company to the right direction and make more profits. The author have strong recommend for investors to invest in Rolls Royce.

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