Smiths group swot and pestle analysis

Introduction:

Smiths Group was first established as a family clock and watch business in 1851 by its founder Samuel Smith. Later in 1944 S. Smiths & Sons (Motor Accessories) public limited company was formed with four divisions including motor accessories, aircraft instruments, industrial instruments and English clocks. In 1958 aircraft instruments combined with Kelvin & Hughes, establish aviation and marine divisions. Company acquires Portland Plastics and Surgical Plastic in the same year (1958). Industrial division was established in 1960 which was concerned with the industrial instruments. In 1965 company changes its name to Smiths industries in 1965. (Detail history of company is listed out in appendices-1).

(http://web. ebscohost. com/ehost/results)

In July 2008, Smiths Group announced the acquisition of Triasx, a Brisbane-based wireless communications components manufacturer. In the same month, Smiths Detection opened a high-tech production plant in Germany designed to meet the soaring global demand for its advanced x-ray scanning machines. In September 2008, Smiths Group announced the sale of an eight acre former operational site in Basingstoke, Hampshire for £16 million (approximately $32 million). In the same month, Smiths Medical developed a unique wireless blood pressure monitor using Bluetooth technology which is set to transform the way medics treat critically ill patients in hospital. Later in the month, the group announced that its interconnect division won long-term design and supply contracts on US military communications programmes worth a potential £225 million (approximately $450. 1 million).

In November 2008, Smiths Group announced the acquisition of Zhejiang Zheda Medical Instrument, the Hangzhou-based medical instruments manufacturer.

In January 2009, John Crane announced that it won a new £8 million (approximately $16 million) maintenance contract from upstream oil and gas exploration company Talisman Energy (UK). In the same year, the group opened its new headquarters in central London, completing a reorganization designed to increase customer focus and significantly cut costs.

(http://web. ebscohost. com/ehost/results)

Review and analysis of company's sector and company standing in sector, identify its main competitors:

Smiths group provide services and products for medical devices, contraband detection, energy and communication market in more than 50 countries worldwide. Group mainly operates in UK, North America and continental Europe. There are four main divisions of group which are detection, medical, john crane, medical and specialty other. Group is operates with four governments and their agencies, petrochemical companies, hospitals and equipment manufacturers and service provider in different sectors around the world.

Smiths Detection is one of world best manufacturers and designers of sensors that detects and identify narcotics, explosives, weapons, chemical agents, contraband and biohazards. Detection division helps customers in the global transportation, borders and ports, critical infrastructure, emergency responder market and military. This division provides services to the customs authorities, emergency responders, security authorities and homeland securities. Division is providing different services to US Transport Security Administration (TSA), UK ministry defense and airport security to BAA in UK.

John Carne is another main profits contributing business of Smiths group Plc. It provides products and services for major process industries, which includes chemical, oil and gas companies, pharmaceutical, pulp and paper and mining sector. This division provides services to oil and gas companies, pump, refineries and compressors manufacturers. Main customers include China petroleum, Chevron, BP, Qatar gas, Saudi Amraco, Shell, Total, Dresser, Flowserve, Elliot, ITT, Mitsubishi, Solar Turines and many more.

(John Crane to cut 90 at seal factory, Dawson, Brad, Rubber & Plastics News; 11/17/2003, Vol. 33 Issue 8, p1-22, 2p)

Medical division is one of top specialist supplier of medical devices and equipments for worldwide market. Division’s products like medication delivery, safety devices and vital care are market focused and helping in the treatment of cancer, diabetes and many other illnesses. Division has direct sales in twenty countries and has distribution channels in many other countries.

Flex-Tek is another division of Smiths group plc. This division provides engineered components that heat and move fluids for the medical, aerospace, industrial, construction and domestic markets. It is also providing fluids for commercial aircraft and for motor sports fuel and hydraulic applications. It has manufacturing facilities in UK, France, Malaysia, China, India and Mexico. Company customers include Boeing, Electrolux, Carrier, Whirlpool, Trane Part & Whitiney GE Aerospace, Airbus, Hoover, Dyson and Panasonic.

(MARKET FOCUS, Velocci, Jr., Anthony, Aviation Week & Space Technology; 9/29/2003, Vol. 159 Issue 13, p10-11, 2p, 1 Chart, 1 Graph)

Following are the few major compotators of Smiths Group Plc. Detail competitor’s information can be found in appendix.

EADS

Goodrich Corporation

GE Healthcare

Flowserve Corporation

L-3 Communications Holdings, Inc.

3M Company

GE one of the big rival companies is trying to acquire Smiths Group Plc. for £2. 45 billion. If this acquisition is successful than group will lose one of its important division. Smiths Group competitors are making strategic move to take group out of business. For complete list of competitors see appendices-2)

(Kanter Jake, Supply Management; 10/22/2009, Vol. 14 Issue 21, p7-7, 3/4p)

Smiths Group is operating in highly competitive markets and in those markets competitors have more recourses than the group.

Smiths Detection competes with L3 Security & Detection Systems, GE Security, Nucteck and Rapiscan Systems. In the emergency responder and military market group main competitors are Bruker, Environics, General Dynamics and Canberra.

John Crane is also operation in highly competitive environment. In Oil and Gas rotation technologies major competitors of John carne are Eagle Burgmann Industries, Flowserve, Ocborne Engineering & Waukesha. In equipment in upstream energy division face competitors like Norris, Weatherford, Cameron, UPCO and Quinn.

Medical division competes with well establish competitors like, Teleflex, Covidien, Becton Dickinson, Cardinal, Hospira, Vital signs, Medtronic and many more. Many small and medium size competitors are working are competing with Smiths Interconnect operations. Competitors of microwave sub system include Deutsch, Radiall, Amphenol and Souriau.

Smiths group aerospace tubular systems competitors include Eaton and Parker- Hannifin. Heat solutions domestic appliance and specialty heating element competitors include Watlow, Emerson and Chromalux. In construction related operation group is facing competition from Hitachi, Omega-fex, Hart & Cooley, Atco and Goodman.

(MARKET FOCUS, Velocci, Jr., Anthony, Aviation Week & Space Technology; 9/29/2003, Vol. 159 Issue 13, p10-11, 2p, 1 Chart, 1 Graph)

PESTLE ANALYSIS:

(P)OLITICAL:

Smiths Group has good relationship with governments like, USA, UK, Europe, China, Russia and many others. Smiths group is involved directly in national security of UK and USA. Most of the group contracts are from governments and public sector. Smiths group products are used in detection, medical, oil & gas, aviation and many other businesses as well. In order itself operation group has make sure that it deals with governments fairly otherwise it will be difficult for group to keep most of it business. Involvement in national security and defense should be carried out in such a manner that no confidentiality is breached. Change in political government may result in loss of contracts as new governments may not want to continue projects with the group. Change in government policies and tax rate changes will directly affect group profitability.

(http://www. smiths. com/ar09/smiths_group. aspx)

(E)CONOMICAL:

According to IMF reports world economy will be in recession for 2009 and 2010. It is evidenced now that this economic recession was worse than expected. Economic recession will have negative effect on group revenues and group may have to redundant extra staff if this trend continues.

(http://www. smiths. com/ar09/smiths_group. aspx)

(S)OCIAL:

Group is operating directly and indirectly in countries with different social and cultural backgrounds. Thus group has to make sure that it shouldn't work against the cultural and social values of that country. Group should develop such human resources strategies that it will result in motivation for their staff from different back grounds.

(http://www. smiths. com/ar09/smiths_group. aspx)

(T)ECHNOLOGICAL:

Smiths group is operating in such a competitive environment that it has to change its procedures in such a manner it should remain market leader. Technology changes results in cost savings, time saving and resources saving thus eventually results in profits. Group has acquired many running business to have benefit of new market, products and technologies.

(http://www. smiths. com/ar09/smiths_group. aspx)

(L)EGAL:

Group operations may result in law suits either from employee or from customers. Such losses can be big enough to have negative effects on profitability. Thus group should devise mitigation strategies like get insurance for losses etc.

(http://www. smiths. com/ar09/smiths_group. aspx)

(E)NVIRONMENTAL:

Group should operate in such a manner that its operations should result in long term sustainable profits. Group operations are global and it operations will have massive impact on environment. Thus group must act to reduce negative impacts of its operations. Group must not consume all the available resources and must replace all consumed resources as it will bring sustainability to climate and help future generation to exist.

(ACCA P3, 2010)

SWOT ANALYSIS:

Smiths Group one of the biggest technology group globally. Smiths group acquired many companies which brought synergies for the group. On the other hand acquisition also results in many inherent problems.

(S)trengths

Rapid inorganic growth: Group has acquired well established companies in different sectors which give them more capabilities to meet customer needs. Acquisition of Sartorius Bearing Technology (SBT) has improved group abilities to improve technological improvement and results in high performance rotating equipment for oil and gas industry.

(Smiths Group buys six US companies in a year Professional Engineering; 5/25/2005, Vol. 18 Issue 10, p14-14, 1/5p)

Strong geographical presences and good customer relations: Group is operating in more than fifty countries worldwide. Group has good relations with governments like US, UK and Europe. Group have contracts with the governments, big industries, hospitals and many other global companies. Smiths detection’s technology is used at nearly 80% of the world’s airports and 85% of its sales are influenced by the governments and their agencies.

Capabilities: Group has strong abilities to develop new technologies. Investment in research and development is significant which is a indication of group commitment to the future organic growth of the business. Group has invested £ 86 million in R&D in financial year 2008, which was 8. 9% more than the previous year.

(W)eaknesses

Poor cash management: As compare to 2007 group cash inflows in 2008 are declining. The net cash inflow from operating activities decreased by 19. 5%, if this trend continues in future company will be struggling to pay its liabilities. Poor cash management indicates poor cost controls, inefficient management of resources and poor decision making by the management.

High gearing: It is observed in the financial statements of the company that debt in 2008 have increased as compared to the 2007. There is 30. 7% increase in debt which means company is relying more on debts than other cheap financing sources like equity and internally generated profits. High debts can result in less profits, compulsory interest payments, loss of investors trust and eventually loss of control because of collaterals.

Competitors: Group is operating in highly competitive environment where it faces competition from global companies which have more resources than the group. Competitors like, EADS, Goodrich Corporation, GE Healthcare, Flowserve Corporation, L-3 Communications Holdings, Inc., 3M Company, Anaren, Inc., Amphenol Corporation and many more are well establish businesses. Thus in such an environment it is challenging for Smiths to survive and compete on prices.

(O)pportunities

Acquisitions: Group has acquired much well established business and it has given more opportunities to gain competitive advantages, access to, new technologies, and new markets, large number of customers and diversification to manage risks.

Increasing product demands like, for detection and medical equipment: US medical market has an evidence of growth over the past few years and it is estimated that this trend will continue in future. Thus group has potential of growth in this market.

Increased demand in tourism industry has resulted in much stronger rebound of air traffic in recent years than evidenced previously. Thus there is big potential for group to expend in this market and in all other product markets as well.

(Smiths confident that growth will continue Massy-Beresford, Helen, Flight International; 3/22/2005, Vol. 167 Issue 4977, p26-26, 1/4p)

(T)hreats

Global economic recession: According to the IMF reports world economy will be in recession for next two years and this recession will have negative impact on global companies.

Highly competitive industry: It will be difficult for company to increase profitability in such an intense competitive environment.

(http://www. imf. org/external/pubs/ft/survey/so/2009/res070809a. htm)

Financial analysis:

Profitability:

Profitability ratios can be used by investors to evaluate company is generating enough profits or not. Management can use these ratios to evaluate whether controls are efficiently working and company achieving will be able to achieve long term sustainable profits or not.

(ACCA F9, 2010)

Return on capital employed (ROCE):

ROCE is a profitability ratio which describes relationship between operating profits and capital employed. Capital employed includes debt and equity financing. ROCE of the company is increasing over the last three years. And company is generating more returns by using available sources of finance. ROCE in 2009 is 19. 73% and for 2008 it is 17. 98% which is 1. 74% higher than the last year. There was 7. 84% ROCE in Y/E 2006 but later on company has managed to increase return. ROCE can be further explained by calculating net profit margin and asset turnover.

(ACCA F9, 2010)

Net Profit Margin (NPM):

Net profit margin shows the relationship between operating profits and sales. NPM of Y/E2009 is 15. 94% which is 0. 28 % higher than the last year 15. 66% in Y/E 2008. Over the last five years NPM is increasing but increase is not significant. It may be because of poor controls on direct and indirect costs and high competitive environment. Company may be struggling to compete on price due to competitors actions.

Asset Turnover (AT):

Asset turnover shows relationship between sales and capital employed. AT shows how efficiently noncurrent assets of company has been utilized over the past years. Company AT in 2009 is 0. 09 times higher than the last year and there is not much difference between AT over the last five years. Company noncurrent assets are losing their efficiency and they might need replacements in near future.

Gross Profit Margin (GPM):

GPM shows relation between gross profit and turnover. GPM is stable over the last five years. This shows that company have good control on direct costs (material, labor and production overheads).

(ACCA F9, 2010)

Liquidity Ratios:

Liquidity ratios show the liquid (cash) resources condition of the business. These ratios explain the ability of company to pay its current liabilities and expenses.

(ACCA F5, 2010)

Current Ratio (CR):

Current ratio explains relation between current assets and current liabilities. Group CR is below than standard CR of 2. Over the last five years company CR is consistent. Company has to fewer current assets as compared to the current liabilities.

(ACCA F5, 2010)

Quick Ratio (QR):

Quick ratio shows the relation between liquid current assets and current liabilities. Group QR is less than standard 1 time. Company has less liquid assets available as compared to the current liabilities. If this trend continues company will be struggling to pay its current liabilities and eventually group can face cash flow problems.

(ACCA F5, 2010)

Working Capital Ratios:

Working capital ratios explain the cash management of the business. It includes further three ratios.

Inventory Days (ID):

Inventory days of the group are gradually increasing which means group is losing its control over the inventory. Company is keeping inventory for longer period and this trend is increasing every year. Group has to incur extra cost like holding cost in holding inventory for long and if inventory take longer to sale it will result in loss of value.

(ACCA F5, 2010)

Accounts Payable Days (APD):

APD of the group is reducing as comparison to the last five years. If company is paying to their suppliers earlier it will loss cash and eventually will be difficult for company to manage cash flows. If group delay its payments to the suppliers it can use same cash for other purposes and thus can have a benefit of interest free loan.

(ACCA F5, 2010)

Accounts Receivable Days (ARD):

Accounts receivable days shows the time period taken by the receivables to pay organisation. TRD have increased over the last few years and thus group is struggling to get money back from their customers.

(ACCA F5, 2010)

Solvency Ratios:

Financial Gearing:

Group long term debts have increased over the last five years. In Y/E 2009 long term debts of the company were 752. 2 million which is 31. 5 million higher than the Y/E 2008. Group is relying more on debts as compared to the share capital thus group is exposed to high risks. Group is highly geared and investors will lose their interest in investing in to the organization.

(ACCA F5, 2010)

Interest Cover (IC):

IC shows comparison between operating profits and interest charge. Company profits are increasing over the last five year. Company ability to pay interest is increasing over the last few years.

Price Earnings Ratio (P/E ratio):

P/E ratio can be used to explain the relation between share price and profits. This ratio helps investors to identify whether the company is achieving their aim of maximization of wealth and growth of their wealth. P/E ratio of the company is 4. 352 times in Y/E 2009 and is 5. 595times in Y/E 2008. If this trend continues investors will lose their interest in group and group will suffer to get equity financing.

(ACCA F5, 2010)

Earnings per Share (EPS):

EPS is the measure of amount of dividend (portion of profit distributed among share holders) available to the share holders. As compared to 2008 company EPS has increased by 1 penny. On average group EPS remain at same level this indication that company is giving regular dividend to its share holders.

(ACCA F5, 2010)

Share Price:

Share price is very sensitive information for shareholders and little variation in share price will change investor's choice of investment. There are many factors which affect share price like speculations, company performance, forecasts, company future perspectives, market trends and many more.

Group share price variations over the last five years can be seen in appendices. Share price trend shows company share price is coming back to peak as it was in 2008. Group share price fell to the lowest price in May 2009. Group has significant impact of economic recession on its share price. This shows lack of investors trust in stocks market as there was high risk in market due to recession. In 2010 group share price revive and reaches to its maximum, which shows investor still trust group and are willing to invest into company.

(ACCA F9, 2010)

Appendices:

Appendix 1

Smiths Group History: (from 1983 till 2008)

In 1983 company ceased production of direct supplies of original equipment to European motor industry. Company sold vehicle heater business to a subsidiary of Hanson Trust in same year (1983). Company also stops operations of mechanical clocks in 1984. At that time (1984) company was operating under three groups industrial; medical systems; and defense and aerospace. In 1987 company acquire US avionics business of Laer Siegler Holidings. Company acquire Graseby which was involved in defense related equipments for biological and chemical detection in 1997. Strategic Technology Systems, a supplier of health and usage monitor systems was acquired in 1999. In 2000 company acquired the BAE systems, Marconi actuation systems and an aerospace division of Invensys. In the same year (2000) company purchased Fairchild Dynamics from Orbital Sience and merged with TI Group and was named as Smiths Group.

Group made acquisition of Barringer Technologies, Point- Lok Needle Protection Device from Griff Industries, Summitek Instruments and Bivona Medical Technologies. In late 2001 group sold its vacuum and pressure businesses to BOC Edeards. In mid 2002 group sold its Jhon Crane-Lips marine business to Wartsila of Finland. In 2002 company also acquire Heimann Systems in 2002. Group sold its air movement and cable management businesses by the end of 2002 to HSBC private equity.

In mid 2003 group announced to form a new division including Smiths Heimann and Smiths Detection to supply services to detection market. Company streamlined its medical division to for Smiths Medical in same year (2003). Company sells Matzen & Timm(international aeronautical industry) to Masterflex and also sell its polymer business to Trelleborg. Company made a contract with Boeing to supply wind pylons for 20 years in the end of 2003.

Cyrano Sciences was acquired by Smiths Detection in 2004. Dynamic Gunver Technologies (aerospace business) was acquired by the group for $102 million, in 2004. SensIR Technologies, a manufacturers of infrared based analysers for $75 million. TRAK communications was later acquired in 2004 for $111. 5 million and strengthened its interconnect business. A respiratory care device company was acquired in 2004 by Smiths Medical. John Crane acquired Tianjin Timing Seals in 2004 to strengthened its presence in China.

The group acquired Farran Technology and strengthened its detection activities, in 2005. In the same year, it acquired Medex, a medical devices company for $925 million. Later in the year, the group acquired ETI Technology, a US bio-technology detection company. Also in 2005, Smiths

Group announced that Flexible Technologies business of the specialty engineering division had purchased Hi-Tech Hose in Massachusetts for £9 million and Farnam Custom Products in North Carolina for £3. 5 million. During the same year, the company acquired Millitech, a millimetre wave and antenna company in the US, for $33. 5 million. Later in 2005, it acquired LiveWave for $17. 6 million and extended its detection technology range.

In 2006, Smiths Group expanded its interconnect business by acquiring the business and assets of Lorch Microwave for $25 million. The group entered into a contract with Shanghai Pudong International Airport to supply x-ray systems, in the same year. Later in the year, the group established engine components facility in North Carolina. Also, the detection division established a new production facility, Smiths Heimann Rus, in St Petersburg, Russia. Also in 2006, the group partnered with Boeing for GoldCare service solution for Boeing 787 dreamliner operators. During the same year, the group launched Tadar, a new people screening system.

During 2006, the aerospace division of the group teamed up with BAE Systems to develop an

Unmanned Air Vehicle (UAV) technology demonstrator project called Taranis. During the same month, Smiths group entered into $60 million agreement with General Electric on F404 engine. Later in 2006, Dowty Propellers, a business of the aerospace division, entered into a long term propeller support agreement with Flybe Airlines for the Dash 8 Q400 passenger aircraft fleet.

Smiths Group announced the acquisition of CDI Energy Services (CDI) in 2007. In the same year, the group sold its aerospace businesses to General Electric. Later in the year, Smiths Detection secured ten year BAA deal to revolutionise UK passenger checkpoints. Deal includes deployment of aTiX, the checkpoint X-ray machine that can automatically detect explosives and liquids. Also, in Russia and Dubai, Smiths Detection gained significant orders worth over $150 million in the transportation and ports & border markets.

During 2007, Smiths interconnect, part of Smiths Group, announced that four of its businesses,

Hypertac, TRAK Microwave Systems, PolyPhaser and Millitech were awarded contracts with a total potential value of over $90 million. In the same year, Smiths Group acquired Sartorius Bearing Technology (SBT), part of Sartorius. SBT is a leading provider of high performance rotating equipment for the oil and gas industry based in Gottingen, Germany. Later in 2007, Smiths Group sold its Marine

In March 2008, Smiths Group received 510(k) clearance from the US Food and Drug Administration (FDA) for a new portable medication delivery system that would make pain management simpler and safer for patients and clinicians. After one month, Smiths Group announced the acquisition of Indufil BV, a Dutch-based specialist in filters for the petrochemical and process industries. Smiths Medical announced it would promote and distribute Abbott's FreeStyle Navigator Continuous Glucose Monitoring System in April 2008. In May 2008, Smiths Group announced the purchase of Allrizon Tongguang, a Shanghai-based communications equipment firm. In the same month, the group announced completion of its acquisition of Fiber Composite (Fiberod), a Texas-based company, specialist in oil and gas lifting equipment.

(http://web. ebscohost. com/ehost/results)

Appendix 2

Smiths Group Competitors List:

Anaren, Inc.

Amphenol Corporation

American Technology Corporation

B. Braun Medical Inc

Becton, Dickinson and Co.

Cobham plc

Covidien Ltd.

Cardinal Health, Inc.

Cameron International Corporation

Emerson Electric Co.

General Electric Company

GE Security, Inc.

Hitachi, Ltd.

Hart & Cooley, Inc.

Hospira, Inc.

Moog Inc.

Medtronic, Inc.

Nutech Inc.

NORRIS MEDIC

Omega Flex, Inc.

Pall Corporation

Quinn Group, Inc.

Radiall SA

Rapiscan Systems, Inc.

Siemens AG

Teleflex Incorporated

Tyco International Ltd.

United Technologies Corporation

Universal Potash Corp

Vital Signs, Inc.

Weatherford International Ltd.

Watlow Electric Manufacturing Company

(http://web. ebscohost. com/ehost/results)

Appendix 3:

Ratios Analysis:

Y/E 07/31/09

Y/E

07/31/08

Y/E

07/31/07

Y/E

07/31/06

Y/E

07/31/05

Profitability

ROCE= PBIT/CE*100

424. 80/(3011. 3)*100= 19. 727%

17. 98

17. 015

7. 848

14. 783

NPM

424. 8/2664. 6*100= 15. 942%

15. 66

14. 545

5. 447

11. 86

AT

2664. 6/(1541. 5-858)= 1. 24 times

1. 15

1. 17

1. 37

1. 25

GPM

1217. 1/2664. 6*100= 45. 68%

45. 48

46. 36

40. 07

38. 37

Liquidity

Current Ratio

1099. 6/858= 1. 28 Times

1. 33

1. 21

1. 28

1. 32

Quick Ratio

(1099. 6-413. 6)/858= 0. 799 Times

0. 86

0. 824

0. 781

0. 77

Working Capital

Inventory Days

413. 6/1330. 1*365= 113 days

117

107

102

120

Accounts Payable days

130. 7/1330. 1*365= 35 days

48

55

46

45

Receivables Days

514. 4/2664. 6*365= 70 days

83

75

69

82

Solvency Ratios

Financial gearing

752. 2/859*100= 87. 57%

78. 68

62. 78

63. 27

77. 83

Interest Cover

424. 8/54. 4= 7. 81

8. 41

5. 43

3. 29

7. 45

Dividend Cover

30. 03

26. 6

22. 12

2. 88

28. 63

P/E Ratio

4. 352

5. 595

4. 434

3. 772

3. 873

EPS

0. 054

0. 042

0. 053

0. 057

0. 051

Appendix 4

Share price Movement

(Adopted from http://ir1. euroinvestor. com/asp/IR/PrinterFriendly/PFOD2.

aspx)