

Introduction of the rolls royce company management essay



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ABSTRACT

This case study aims to analyse strategic management of Rolls-Royce civil aerospace division. The analysis also identifies and explores the factors which are responsible for the current strategic position and development of this company and critically evaluate the factors involves in future growth, development and change. To evaluate the performance of the company analysis tools used are PORTER'S FIVE FORCES, SWOT and PESTLE analysis. In the end there is a conclusion for taking the summary of involved company into consideration for its successful in the near future.

INTRODUCTION OF THE COMPANY

The Rolls-Royce group plc is well known multination company with business around 135 countries and manufacturing capabilities spread in 14 different countries. Around 40, 000 employees work in various business ventures ranging from civil, defence aerospace to marine and energy markets. Rolls-Royce services 56, 000 aircraft engines for 300 airlines, 2, 400 public companies and also over 100 armed forces. Its engines can be found in every type of commercial aircraft manufactured by both aviation industries giant Airbus industries and Boing, whether it is biggest modern airlines or business jets. In world Rolls-Royce is renowned and prestigious brand for its high class quality, reliability and high end technology provider to its customers.

Rolls-Royce group plc shows total earning of £10, 414 million which is equivalent to \$16, 307. 6 million for the financial year 2009 ended on December, a well rise of 14. 7% over financial year 2008. The operating

profit of the company was £1, 174 million equivalent to \$1, 838. 4 million for the financial year 2009, an increase of 32. 7% over financial year 2008. The total profit was £2, 217 million equals to \$3, 471. 7 million in financial year 2009, as compared to the total loss of £1, 342 million equals to \$2, 101. 5 million in financial year 2008.

MISSION

“ A great company is built by first class, passionate and highly skilled people. We have these in Rolls-Royce and I believe that we will continue to improve our business and deliver excellent value for all our shareholders.”

Sir Simon Robertson

Chairman (February 9, 2011)

VISION

“ During 2010, we have continued our programme of investment, funding world-class facilities in all major geographies, providing capacity for future growth, contributing to improved productivity and delivering products with operational lives which may well extend to half a century. We remain confident in our ability to double revenues in the coming decade through organic growth alone. However, we also have the management and financial capability to accelerate growth through acquisition and partnership.”

Sir John Rose

Chief Executive (February 9, 2011)

STRATEGIC OBJECTIVE

“ Our consistent strategy, applied over many years, has helped deliver a more broadly based, better balanced and more resilient portfolio. This strategy has five key elements:

- address four global markets, civil aerospace, defence aerospace, marine and energy;
- invest in technology, infrastructure and capability;
- develop a competitive portfolio of products and services;
- grow market share and our installed product base; and
- add value for customers through the provision of product-related services.”

Sir John Rose

Chief Executive (February 9, 2011)

EXECUTIVE SUMMARY

Rolls-Royce civil aerospace division thinks of a huge chance in terms of future growth for commercial aerospace markets, contributed by increasing air transportation varies from business to individuals. Forth coming 20 years there are need of 141, 000 engines which cost more than \$800 billion. This increased demand is from fast-emerging markets like Asia, Middle East and Latin America but at the same time from much saturated markets of Europe and North America due to taking off thousands older aircraft to the new ones. Hence creates the demands of aftermarket and services contribute to

more than \$600 billion for these accompanied services. The most essential part of demand is the business jets. Till now this market leads by mainly US customers but in coming years now there an increase by 50% can be seen from different part of the world as well.

MARKET SEGMENTATION

There are two main different market sectors in which Rolls-Royce civil aerospace division works are:

Sales of brand new aircraft engines to aviation industry leading manufacturer Airbus industries and Boings and to some airlines as well.

Spare part to those old purchased engines and aftermarket services and maintenance to its customer airlines. This segment of market consist competitor who specialized in maintenance.

The first one is primary market who responsible for selling new aircraft engines, which creates the opportunity to the second market, is secondary market, responsible for spare part and after sales services.

There was only 10% commercial aerospace market captured by Rolls-Royce in 1970s. This segment of civil aerospace market is mix of immense commercial and technical competition from General Electric and Pratt & Whitney of the USA. The grand investment in development and research for making new engine and avail verity of best services to the customers is the only way to gain major market share.

To gain large share in market they need to concentrate on after sale service more than products with services for example information management, inventory management and after flights maintenance services. This market may be considered as vertical due to too less number of purchasers. Rolls-Royce must be concerns about its customer future and present needs.

PORTER'S FIVE FORCES MODEL

Competitive rivalry

This oligopolistic global industry is dominated by three players operate in are: General Electric and Pratt & Whitney of the USA and of course Rolls-Royce. This market segment of civil aerospace is highly budget oriented as it requires massive capital investment for advanced technology and research and development. It is very difficult to dominate the market for single manufacturer, which leads to the increased competition within the opponents.

There is a great completion for new aircraft engine as primary market due to the interdependence on the secondary market of aircraft engine part sales and services. So we can infer that number of purchase in primary market sales will tells about the access power to the secondary market. As in recent years each producer tries to enhance their volume share, which brings a healthy competition to the existing market. Competition getting tougher by each passing day as gas turbine engine is quite mature technology which reduces the difference advantage within competitors.

Power of buyers

There are less future possible buyers for new aircraft. Therefore cost of the new aircraft engine is set by the buyer as they are market prime player. The globalisation of the many airlines in recent years has enhanced their purchasing power to great extent. It is really a long-term decision to buy a specific aircraft or any combination of aircraft engine. This implies that if an engine manufacturer lost a single order from particular airline affect its business for a decade with that airline. The purchase of single type of aircraft engine produces cumulative effect with another purchaser who is going to buy the same type of aircraft engine. Life time cost ownership; warranty and subsidised maintenance cost are the main concerns of the all airlines.

Power of suppliers

There is very less influence or power of supplier to the aircraft engine producer. The reason for this is abundance of suppliers to the aircraft engine producer. These suppliers responsible to supply from small parts like nuts and bolts to high end technology like complicated electronic control components pricing hundreds of thousands of pounds. The smaller companies which contribute to most of the supplier base, have now decreased power. The reason behind is that aircraft engine producer involves in many different source supply applying double supplier strategies. Among all type of equipment suppliers high end complicated electronic component suppliers are the most powerful.

Threat of entry

A well-known name also finds it quite tough to enter in aircraft engine business. The crucial entry factors like extremely skilled experience requirement along with massive power to investment on research and development as well to win buyers confidence are the main hurdle to enter this specialized segment of market. Once a new aircraft engine built then the very next step is going through high standards of testing by authorities to get approved. The name of the company also plays a vital role in this industry due to the sensitive nature of this market. Thus reputed name like Rolls-Royce is well known for its good verity of quality high-technology products.

Threat of substitutes

Till now there is most likely no other better known way to replace air transportation completely hence so do the aircraft engines. Whereas advancement in technology such as video conferencing facilities and new extremely fast trains however can definitely hamper some air travels business in near future. But still these emerging technology developments taking place along with increasing opportunities of air travel.

Summary of Five Forces analysis

This analysis gave an idea about the amount of competition as in whole for this particular segment of civil aerospace market. There is clear indication of buyer great influence upon the organisation leads to higher degree competitive market environment in civil aero engine business. Still existing manufacturer share business among them as there is large amount of hurdle

for entry and very less threat of substitutes. However, maturity of used technology and decrease in aviation industry growth brings the huge competition for existing engine producers.

SWOT ANALYSIS

Strengths

Weaknesses

Major player in aero-engines manufacturing

Reach to different parts of the world market

High capacity for development and research

Way of dealing to legal affairs

Decreased budget for operation

Opportunities

Threats

Increased demand for commercial airplane engines

New planed acquisitions

Increased demand for turbine helicopters

High level of competition

Government policies compatibilities

Major risk for supply chain

Strengths

Major player in aero-engines manufacturing

Rolls-Royce is one of the major players in civil aerospace industry. It is among the top world's manufacturer of civil aircraft engine, serving more than 30 different kinds of civil aircraft varies from business jets to huge airlines aircraft, with over 13, 000 big Rolls-Royce aero-engines under service.

Reach to different parts of the world market

Rolls-Royce has huge worldwide base. It is primarily works around the world such as Americas, Africa, Asia, Australia, Europe and Middle East. 130 different countries customers are served by this company. Rolls-Royce manufacturing plant, offices and service facilities can be found in more than 60 countries around the world.

In addition, there is a huge remuneration can be seen from these above different regions of the world where it operates. The reach to wide world market and fair revenue earning from these each market leads to less risk against this volatile industries as there is no dependency on single market.

High capacity for development and research

Rolls-Royce developed great platform for research and development along the time. At regular basis this company emphasise on advancement for new technology which is necessary to sustain in the competitive market environment. With the £7 billion spending on its research and development

for the last 10 years Rolls-Royce want to lead with new technological advancements, especially on the basis of collaboration with many universities of the world.

Having strong hold on research and development capabilities Rolls-Royce came up as winner against manufacturers, able to keep its high end technology edge to competitors and leads the industries with new advancement in technology. This leads to Rolls-Royce at different high level category in terms of its product line.

Weakness

Way of dealing to legal affairs

Rolls-Royce is a firm, where too many kinds of legal affairs and claims can be seen in every day company's business. Few amounts of the affairs and claims are substantial to some extent.

Even though Rolls-Royce cannot forecast the results of these proceedings, however this may be possible it comes as imposition of damages, fines and other remedies contribute to hampering image of the company as well the its business, position and operations. In addition, these types of activities brought bad impression to Rolls-Royce share price market and reputation.

Decreased budget for operation

There is a big decrease in 2009 budgeting for operation can be seen in Rolls-Royce. A huge decline by 26. 3% in financial year 2008 from £824 million to £607 million in financial year 2009 has been recoded. The financial position

decline is the because of lack of cost effectiveness in management and poor financial decision making and planning by the management. If this trends continue for long it will definitely decrease opportunity of the perceived future growth.

Opportunities

Increased demand for commercial airplane engines

Rapid change recoded around the world in air travel as the new market opportunities and challenges arising. Throughout the world constant demand for airlines is common as new airlines model increases, high growth in emerging economies are responsible stabilized airplanes demand. The Boing big industry giant expect a growth of \$3. 2 trillion market for 29, 000 new aircraft for the forthcoming 20 years and consider this segment of market for near-term realities, a worldwide recession, decrease in air travel and cargo transportation, and uncertain price of fuel. There is an increase of 4. 9% expected in terms of passenger traffic for each single passing year for next 20 years. There is a forecast about Asia Pacific region that it will be going to grow to a value of \$1. 13 trillion.

Rolls-Royce is well positioned both geographically and technically to service the huge aircraft market in the future. Hence, the company is well positioned to capitalize on the growing commercial airplanes market.

New planned acquisitions

Rolls-Royce main objective of strategic acquisition is to raise the demand for sales and earnings growth. For example in the moth January 2010, Rolls-

Royce completed the 100% acquisition of Europea Microfusioni Aerospaziali from Finmeccanica, who built precision micro-castings for aero engines. This particular acquisition would enable the company to strengthen its customer base and market position in the Italian market.

Strategic acquisitions such as these would provide the company with an opportunity to develop its product base and reach across various segments and geographies.

Increased demand for turbine helicopters

As the turbine helicopter market segment is increases which lead to force able future, according to Rolls-Royce forecast. New emerging markets circumstances are creating a platform for an even growth in near future. There is estimation for 2010-2019 that total demands for helicopter delivery is increased to 16, 400 units as good response from the commercial market fundamentals. In both these particular market division the replacement for old engines against new one will give the rise to for immense growth opportunity to this segment.

Rolls-Royce, which offers one of the broadest power ranges of helicopter turbo shaft engines, is well positioned to capitalize on the growing demand for turbine helicopters.

Threats

High level of competition

Rolls-Royce is operating in very highly commutative business environment. This company works in many diversified power field ranging from commercial aerospace market to defence aerospace market, marine market and energy market segment. Rolls-Royce high end technology makes its product different in the market on the basis of fine technology, brand name, cost effectiveness, past performance and timely delivery of the order. The biggest competitors of Rolls-Royce are companies including Hampson Industries, Honeywell International, Safran, and Textron.

Few of these organisations have better engineering, production and marketing capabilities as compared to Rolls-Royce. Furthermore in addition continues consolidation for the world defence, space and civil aerospace business has rapidly getting intense to competition results in the decreased number of major contractors present in this field. This increased competition through all operating market segment also affects the share in the market.

Government policies compatibilities

The organisation is obligated to impose and obey all laws and terms and conditions relating to the formation, management and contract of government pertaining to performance. All contract deals and pricing data must be disclosed and should be certified by these corporate regulations. It also regulates accounting rules to control allowable cost and unallowable cost.

At the same time, the organisation is restricted to use or dispose of information pertaining critical to national security concerns and import and export of technical parts and technical data. Organisation operations are <https://assignbuster.com/introduction-of-the-rolls-royce-company-management-essay/>

immensely affected by at customer level, add up organisation's operating costs . If an organization is found involved in violations of these regulations resulted in fines and penalties or even termination of the corporate contract between companies. Definitely these rules and regulation pressurise in terms of cost as well affect the budgeting structure of the organisation.

Major risk for supply chain

Rolls-Royce different operation facilities and supply chain diversified in different division provides products and services to its customers. As its market position and presence over well-known organisations governed by its success increases its demands to on the performance of supply chain. Rolls-Royce produces nearly 30% of value to gas turbine products; the rest is managed by external supplier. To achieve your business goal you should be critical about timely delivery, cost effectiveness and of course quality products. When it comes to the worldwide supply chain, it is quite complex due to the reason there is involvement of large number interrelationships across broad network of the organisation. Rolls-Royce is exposed to an increased risk of disruptions to its supply chain, which could have a significant impact on its operating results Supplier capacity constraints, supplier production disruptions, supplier financial condition, price volatility or the unavailability of some raw materials may have an adverse effect on Rolls-Royce's operating results and financial condition.

PESTLE ANALYSIS

This analysis tells about of external environmental factors.

This may be a useful tool for this case because:

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It gives an idea of framework for figure out a huge range of environmental factors. It depicts the different data in the case which somehow acknowledge environmental issues. This also create a basis for the analysis of opportunities and threats, whereas this case itself highlights the context of the civil aerospace competition as an uncertain environment of political and economic unrest for air travellers. According to our identified order shows some key PESTLE factors which is definitely relevant to the involved airline and aerospace industries in general.

Political factors

Political risk, for examples the Gulf war and terrorism somehow damaging passenger confidence, particularly in the US.

Presence of political support and lobbying for major EU/US aerospace businesses

Support of EU aircraft manufacturer for Rolls-Royce

Subsidies by EU government US tax breaks for Rolls-Royce

Carbon emissions under the Kyoto protocol is targets for reduction by EU, creating pressures for reduced impact of air travel

Policy formation for example Open Skies liberalisation package (2008), allowing any US or EU-based airline to launch scheduled services between the US and EU.

Economic factors

Supply/demand factors: unpredictable demand ; over-capacity supply market

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Increased price of the fuel

As we talk about economic cycle for example 2008 and 2009 a global recession, generate decreased demand, excessive production supply, civil aerospace and supplier failure, unavailability of cost for major investment and unpredictable demands.

Commercial aerospace segment recession in 2002-3, leads to damaged US passenger confidence after such incidence following 9/11 there are oversupply , loss of residual or resale value for aircraft and specific exposure for Airbus, due to its resale value guarantees

Industry structure and competition (micro-economic factors): eg intense competition between Boeing and Airbus in effective duopoly; high barriers to entry (high investment, few major players reaping economies of scale etc); market consolidation, second-hand market; emergence of low-cost airlines.

Socio-cultural factors

Changes in global demand for air travel, and the emergence of new markets and routes e. g. European regional travel growth and future emerging travel markets, particularly in Asia-Pacific and developing countries (www. airbus. com: Global Market Forecast)

Consumer/public/regulatory scrutiny re environmental impacts of air travel

Rise in urban growth and congestion, leading to pressure on airports and air traffic management, creating demand for larger aircraft (www. airbus. com: Global Market Forecast)

Challenges of cultural differences in dealing with global consumer and industry markets

Challenges of cultural differences in cross-cultural organisations and alliances

Technological factors

Potential for technology-supported added-value products (eg e-ticketing; in-flight Internet access; flight control systems facilitating pilot training; fuel-efficient engines/aircraft)

Competitor investment in R & D and new product development

Potential for continuing innovation

Competitive adoption of efficient P & S and manufacturing in engine manufacture, spare parts and MRO services

Increasing technological complexity placing pressure on global customer support and training

Risk of technological obsolescence, with long delivery cycles

Legal factors

Employment protection

Health & safety: important in manufacturing and also in liability for air safety

Environmental standards and legislation: eg pollution control, emissions reductions, noise abatement

EU/US law and WTO rulings on competition

Contract law and dispute jurisdiction in contracts between EU and US firms

Changes in any or all legal areas, raising change/compliance issues

Eco/Environmental factors

Policy, legislation and consumer pressure re environmental impacts and sustainability

Risk factors: weather impacting on airline activity; spiralling fuel costs; reduction in consumer demand due to concerns re climate change

Scarcity/costs of non-renewable fuels, metals and other raw materials of production

Altitude, climate and other factors in routes and airport locations, affecting operations

CONCLUSION

To cope with consistent changes within its business sphere Rolls-Royce has changed its orientation or approach from core engineering to the more of customer concerned business firm. The company now have more proactive approach in terms of customer awareness and their services focus. But in the past this type of dealing behaviour is very less found as this company also following only the market trends. The overall infrastructure is going to renovate according the requirements of new increasing operating facilities need.

Within this organisation the working structure is aligned to define good relationship within the business and a well-designed system to meet defined business objectives at the same time.

But this structure does not affect the organisation important business culture at any cost within the Rolls-Royce.

Rolls-Royce culture is found in its each employee mind and heart and represented by the way they contribute for this organisation and make decision to develop business strategy. As Rolls-Royce has changed its orientation from core engineering to towards more customer service oriented culture, this need more interaction and involvement towards its customer, with high number of empowerment and quick decision making. To embark a name in today's business world one organisation should be sound in terms of its working culture and physical terms. Rolls-Royce is working rigorously to gain its past reputation over again and achievement of the continuous success as well. As soon they achieve their corporate goals accordingly realigning its financial reporting framework and business monopoly. Finally which leads to change in organisation structure its objective and priorities.