Rolls-Royce plc

Rolls-Royce has not made motor cars since 1971. Rolls-Royce and Bentley Motor Cars Limited is owned by Volkswagen but exclusive rights to use the Rolls-Royce name for motor vehicles will pass to BMW in 2003. The Rolls-Royce group is a global business with customers in 135 countries and production facilities in 14 countries. It employs around 40,000 people focused upon the present and future needs of its customers. The company is one of the most powerful brands in the world, symbolising reliability, integrity and innovation to buyers and users.

The changing context

The commercial aero-engine business of Rolls-Royce operates within two distinct market sectors. These are:

- new engine sales to the two manufacturers such as Airbus Industrie and Boeing, as well as airlines;
- engine parts sales to airlines who service and maintain aircraft.

Competitors in this second market include specialist maintenance companies.

The new engine market is the primary market, which provides access to the secondary market for the sales of engine parts.

Improving service

Customers are increasingly looking for a much more complete service. Although the product will always be important, customers expect higher levels of service such as the shipping of parts, after care service and total customer care.

One way in which staff within Rolls-Royce have focused their actions for responding to the changing role of the business, has been to use Porter’s ‘Five Forces’ model. The model identifies four forces outside the industry:

- potential entrants and the threat of entrants
- power of buyers
- power of suppliers and threat of substitutes - as well as one within the industry – competitive rivalry.

Competitive rivalry

As described above three dominant players operate in this oligopolistic global industry. The industry is capital intensive and there is a requirement for high investment in advanced technology and research and development. No single manufacturer dominates the industry, so balance fuels the rivalry.

Analysing the external environment

One way in which staff within Rolls-Royce have focused their actions for responding to the changing role of the business, has been to use Porter’s ‘Five Forces’ model of industry competition. It has helped them to develop a better understanding of the business environment so that business opportunities could be analysed. The model identifies four forces outside the industry:

- potential entrants and the threat of entrants
- power of buyers
- power of suppliers and threat of substitutes - as well as one within the industry – competitive rivalry.

Growth in civil aviation markets has stimulated the competition between the businesses that operate in it such as the airlines. This has a knock-on effect on their suppliers – the aero-engine manufacturers and in turn on their suppliers – the engine manufacturers. Rolls-Royce is one of only three engine manufacturers in the world that has a proven capability to design, develop and produce large gas turbine aero-engines. In recent years the company has faced many challenges that have affected its position in the aero-engine industry. By providing an analysis of the competitive environment affecting Rolls-Royce, this case study illustrates how such information is being used by the company as it works towards its vision of becoming the world’s first choice for power solutions for the new century.
**Power of buyers**
The numbers of potential buyers of new aircraft are low. Buyers of aircraft engines are therefore essentially price makers, with the market price for new engines being largely set by the buyer. The power of buyers has further increased in recent years as many airlines have become ‘global carriers’. The decision to purchase a particular aircraft or engine combination is a long-term one. This means that failure to secure an order may prevent an engine manufacturer trading with a particular airline for more than a decade. The selection of one engine type can lead to a dominant effect, with other competing buyers following the same selection. Airlines are increasingly seeking lifetime cost of ownership guarantees, and reduced repair costs.

**Power of suppliers**
The suppliers to the aero-engine manufacturer have limited power. There are many hundreds of different suppliers to the aero-engine industry. They supply all nature of components, from nuts and bolts to state-of-the-art electronic control systems costing hundreds of thousands of pounds. The power of many of the smaller companies, which represent most of the supplier base has been reduced. This is due to engine manufacturers adopting dual sourcing strategies, using a range of alternative sources of supply. The most powerful suppliers are those involved in the supply of high specification electronic control equipment.

**Threat of entry**
Although not unknown, entry to the aero-engine industry is extremely difficult. The highly specialised advanced nature of aero-engine design combined with the costs of research and development as well as the confidence of customers represent significant barriers to entry. New engines also need extensive testing before gaining airworthiness approval from the authorities. The market is also sensitive to the reputation of the engine manufacturer, where names such as Rolls-Royce represent a range of proven high-technology products.

**Threat of substitutes**
There is no substitute for an aero-engine and the threat of substitutes for air transport itself is minor. However, it is thought that the development of video conferencing capability will reduce some business travel and the growth of high speed train travel (e.g. Eurostar) will affect some travel decisions. However, both of these developments are taking place at a time when the demand for air travel is increasing.

**Summary of Five Forces analysis**
Five Forces analysis gives an improved understanding of the degree of competition within the business environment. The analysis shows that the commercial aero-engine business is highly competitive, with the buyer possessing and exerting a very powerful influence upon organisations. The high barriers to entry and the low threat of substitutes indicate that existing competitors will continue to share the business between them. However, a slow down in industry growth and the increasing maturity of products will intensify the degree of rivalry between the engine manufacturers.

**Conclusion**
In response to changes within its business environment Rolls-Royce has developed its orientation from that of engineering to become more business and service focused. The organisation has had to become much more proactive, dealing with new ideas to create more services and customer focus. In the past, change was rare and slow, the company tended to follow the market trend. The structure of the organisation has been realigned to meet the needs of the new way of operating. Organisational structures define important relationships within the business, and create a mechanism for meeting business objectives. At the same time, it has been important to create a new business culture, within Rolls-Royce. A culture exists within the minds and hearts of the people of an organisation and contributes to the way they make decisions and develop business strategies. As an organisation changes from a product-focused organisation towards becoming a service-orientated culture, this requires more involvement of its people, with greater empowerment and rapid decision-making. The corporate identity is the sum of the culture and its expression in behaviour and physical terms. Rolls-Royce has defined the identity that it needs to encourage, building on its past reputation and achievements for continuing success. As these changes take place, the organisation is also realigning its financial reporting framework and corporate governance. This will change how the whole business shapes its purposes and priorities.

**GLOSSARY OF KEYWORDS**

**Business culture:** Standards of behaviour within a business that affect attitudes, decision making and management style.

**Brand:** A unique combination of rational and emotional qualities associated with a product, service or business name or logo. The brand is about image, perceptions and reputation.

**Corporate governance:** Meeting the needs of various stakeholders to an organisation.

**Corporate identity:** The ‘personality’ of a business as expressed in its behaviour, its visual representation and the views that people have of it.

**Differential advantage:** A key product or business advantage over competitors.

**Dual sourcing:** Buying parts or raw materials from more than one supplier.

**Global company:** A company that operates around the world.

**Market forces:** The interaction of those who set a price and of those who buy and sell.

**Oligopolistic:** A market in which there are few customers.

**Product life-cycle:** The duration for which a product appeals to customers.

**Total customer care:** Focusing the whole business upon customer satisfaction through product integrity, including Customer Relationship Management and Total Care services.

**Vertical:** A market in which there are few customers.

**Business culture:** Standards of behaviour within a business that affect attitudes, decision making and management style.

**Price makers:** Those who set a price rather than taking it.

**Primary market:** The main market for a company which serves more than one market.

**Product life-cycle:** The duration for which a product appeals to customers.

**Relationship marketing:** The development of a relationship with customers through the selling process.

**Secondary market:** The alternative market for goods and services.

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