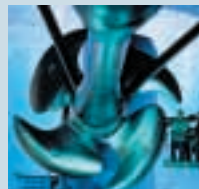
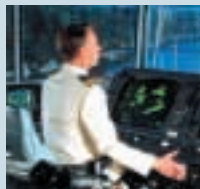
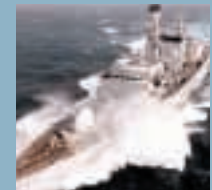
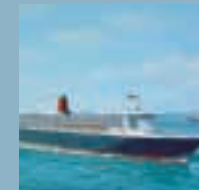




Expanding a business through skilful acquisition

Introduction



The name 'Rolls-Royce' has always been associated with high quality products. Most people probably link the company with high quality aero-engines and motor cars.

Rolls-Royce still makes aero-engines, but no longer manufactures cars. Instead, the company has transferred its **core strengths** and expertise into other markets in which it has the greatest competitive strengths. These are the civil aerospace, defence aerospace, marine and energy markets.

Strategies are the means by which organisations achieve their objectives. Strategies are long-term plans. Strategic implementation is the process of putting these plans into action.

Rolls-Royce's strategy is to secure and retain the leading position in its key markets. The company recognises that an increasing number of customers want to deal with as few suppliers as possible in order to reduce purchasing and

search costs. Therefore, customers look for suppliers who are able to meet the full range of their needs with the highest level of service.

Rolls-Royce has already built a strong, mature business in defence aerospace and is well placed in future programmes. Over the past three years the company has won an average of 30% of the civil aerospace market by value.

However, aerospace is a **maturing market**, so it makes sense for Rolls-Royce to look for new opportunities for expansion. This case study focuses on how Rolls-Royce has built a strong presence in marine markets. It has done this through a process of **take-over**, consolidation and by focusing on developing competitive advantage in this sector. Competitive advantage has resulted from the company making **leading edge improvements**, including a strong focus on meeting the green challenge.

In 1999, Rolls-Royce acquired Vickers Plc. Vickers was already a key player in the marine market, providing leading edge marine equipment. The take-over demonstrated Rolls-Royce's strategic intent to become the dominant player in the marine market. This acquisition gave the company a range of leading edge businesses.

Rolls-Royce carried out extensive market research and conducted detailed financial analyses into the marine market. This research identified a clear opportunity; an opportunity that Rolls-Royce has backed-up through significant investment in this growth area.

The strategy of expanding in the marine sector should be seen as part of an overall strategy of seeking to grow the business of Rolls-Royce by searching out the most suitable opportunities for global expansion and market leadership.

Expanding in the marine market through acquisition

The main way of achieving marine market expansion has been that of acquisition: taking over other leading

players in the field in order to gain competitive advantage. A competitive strategy is one that enables an organisation to stay ahead of rivals. In the modern world, large organisations compete in global markets. To be successful they have to be the best at what they do and they need to be seen to be the best on a global scale. A company's strategists need to identify the key characteristics that will make it 'the best' in the markets in which it operates.

The faster the growth of a particular market, the greater is the amount of expenditure required in order to maintain position in that market. In a dynamic market, considerable expenditure is required on investment in product lines. Intelligent organisations identify those areas of a market that are experiencing the highest levels of growth and then seek to increase their share of the market in these sectors.

This case study shows how Rolls-Royce has identified key areas of the marine markets on which to focus. Today, marine activity accounts for about 15% of the Rolls-Royce group's **turnover**. It has the potential to move to about 30% of the group's turnover over the next 10 years.

Identifying the new opportunity

Given the high levels of global competition in the modern world, a company like Rolls-Royce can survive and prosper only in those markets in which it is a dominant force. Opportunities for acquisition have been taken after careful evaluation. These opportunities have enabled the company to combine its own existing strengths with those of the excellent companies that it has acquired in order to build market leadership.

The marine market has proved to be an outstanding opportunity for expansion for Rolls-Royce. There are two main reasons for this:

- the marine industry is looking to increase the engine power associated with movement of passengers and freight by sea
- the marine industry is under pressure from governments to produce engines that meet more demanding regulations on emissions.

It follows from this that the companies which are best placed to produce and supply marine equipment and systems that are powerful, efficient and environmentally friendly are likely to win the largest share of this market.

Rolls-Royce has developed a world-leading marine business that services customers in global commercial and naval markets. Today, more than 20,000 commercial and naval vessels use Rolls-Royce equipment, and the company's engines power 400 ships in 30 navies. In the marine market, Rolls-Royce provides high capital-value products, services and systems and develops long-term relationships with customers.

The acquisition of Vickers in 1999 added a range of **complementary products** and services and expanded the Rolls-Royce route to market.

The products acquired as a result of the Vickers take-over are market-leading brands in the commercial and naval marine business and include Ulstein, Bird-Johnson, Aquamaster, Kamewa and Brown Brothers.

The effect of adding Vickers Ulstein Marine Systems to the existing capabilities of Rolls-Royce was to:

- make Rolls-Royce a world leader in marine systems
- broaden routes to market
- create new business opportunities
- broaden the product range and allow integrated systems to be developed/offered
- build a strong global support network.



Complementary products: Products that support other products eg producing control systems for marine engines.

Core strengths: The things that a company does particularly well, eg manufacturing to high levels of accuracy.

Leading edge improvements: Improvements that are in a key area of an industry's activity, and which represent important breakthroughs.

Maturing market: A market in which the prospects of future growth are diminishing.

Niche market: A specialist part of a total market.

Search costs: The time and money spent in shopping around for the products that are needed.

Solutions: Responses that meet customer needs.

Take-over: Where one company acquires another by buying up a majority shareholding.

Turnover: The total value of sales.

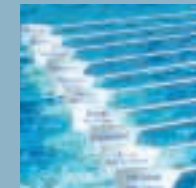
An advertising campaign promoted the key messages to the international naval and commercial markets.



The new force in marine solutions



A worldwide capability in marine technology



Pulling together the world's leading names in marine technology



World-leading integrated marine systems



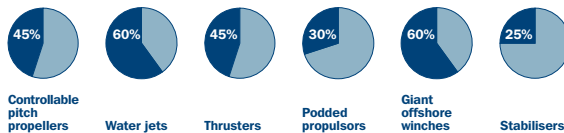
The force in marine solutions

'The force in marine solutions' is the slogan that Rolls-Royce has been using to launch the new and enlarged business. The slogan features in all of the company's advertising and customer communications. Its primary purpose is to gain competitive advantage and distance Rolls-Royce from competitors.

Today, Rolls-Royce provides the widest range of marine products because a range of key brands are now part of the Rolls-Royce portfolio. This portfolio includes:

Product	Description
Aquamaster	Swing up or retractable thrusters
Bird-Johnson	Controllable pitch propellers
Brown Brothers	Stabilisers, steering gear
Kamewa	Propellers, tunnel thrusters, water jets
Ulstein	A variety of marine activities from vessel design and control systems to winch manufacture

Rolls-Royce's strength in marine comes from its leading position in a range of current markets:



Rolls-Royce prides itself on being much more than a company that provides products. Rather, the goal is to become the partner of choice for marine solutions internationally. With such a broad product portfolio made up of leading brands, Rolls-Royce is singularly well placed to provide integrated lifetime solutions for customers that include shipbuilders, ship operators and prime contractors in all marine markets. These solutions require an involvement from Rolls-Royce at every stage in the development of marine vessels.

Rolls-Royce's marine market

Rolls-Royce provides marine solutions for a wide range of customers. In particular, the company targets the high value niche markets of the industry.

Examples of the products and systems provided for specialist vessels include:

Cruise, ferry and merchant

Cruise ships: engines, propellers, podded propulsors, thrusters, deck machinery, stabilisers

Fast passenger ferries: engines, propellers, podded propulsors, thrusters, deck machinery, stabilisers

Liquid Natural Gas carriers: propellers, deck machinery

Fast freight: Marine Trent gas turbines and the world's largest water jets

Offshore oil production and support

Semi-submersible rigs: control systems, podded propulsors, winches, thrusters

Floating production vessels: control systems, thrusters, winches

Naval sector

Aircraft/helicopter carriers: engines, stabilisers, steering gear, propellers, deck machinery

Fast patrol craft: gas turbines, gear boxes, water jets

Frigates/destroyers: engines, stabilisers, steering gear, propellers, deck machinery

Submarines: nuclear reactor plant and total support for this plant and other parts of the submarine.

In the marine market, customers are likely to have a variety of needs for different types of marine equipment and other marine solutions. These customers will want to deal with a supplier who operates on a scale that is sufficiently large as to be able to service and meet a range of complex needs.

Moreover, in global markets it often pays to have a branch of an organisation specifically tailored to meeting local needs. This is certainly true of naval marine markets. For example, for the supply of sensitive defence needs where secrecy is required, the Royal Navy will deal only with UK companies.

By developing a global marine presence, Rolls-Royce has been able to penetrate overseas markets. For example, Rolls-Royce Naval Marine Inc is a US registered company. Being US registered, it is able to deal directly with the US navy. This has led to the development of an advanced water jet in the USA.

The importance of building a differential through green credentials

Today in advanced industrial societies, concern for the environment is at the forefront of manufacturers' thinking. In order to gain competitive advantage, it is essential for manufacturers to produce products that meet rigorous environmental criteria.

Rolls-Royce is very well placed to deliver solutions that meet modern day regulatory frameworks and which include clean solutions and fuel efficiency. The company accepts that responsibility for the environment has to be an integral part of its business strategy rather than a separate activity intended merely to satisfy minimum standards set down by government.

Rolls-Royce has taken major steps in the field of environmental awareness, including a commitment to report regularly on progress made. The company produced its first environmental report in 1999 and places a strong emphasis on reducing the impact of products on the environment.

In the marine market, Rolls-Royce has set out to use tomorrow's technologies so as to enable customers to meet and exceed international requirements for energy efficiency and also environmental concerns eg in the types and quantities of fuels burned in marine engines. In particular, Rolls-Royce has pioneered the next generation fuel-efficient marine gas turbine that will offer operators the opportunity to develop innovative ship designs that will increase their operators' potential to earn revenue.

Conclusion

Rolls-Royce is convinced that the best way to be successful is to be a leading player (1 or 2) in the markets in which it operates. The company has a business with a proven marine pedigree that can trace its roots back to 1849. However, in the modern globally integrated highly competitive market place, it is essential to be the main force in marine solutions by:

- providing the widest range of marine products
- providing a unique systems capability, including market leading environmental solutions, that sets Rolls-Royce aside from the competition.

1 Why did Rolls-Royce expand its presence in the marine market?

2 How did Rolls-Royce expand its presence in the marine market?

3 How might customers benefit from the growth of Rolls-Royce in the marine market?

4 Why is environmental concern an important part of the package in providing marine solutions?

5 If Rolls-Royce were to grow the business further, into what areas would the company be looking to expand?

Questions

Browse the Web

- Answers to the questions
- To download this case study
- A profile of the organisation
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www.thetimes100.co.uk

Information on the organisation
www.rolls-royce.com

Information from The Times
www.thetimes.co.uk