

### **Marketing Audit: BAE Systems Regional Aircraft Division**

#### ***Overview of BAE Systems Regional Aircraft and Market***

*“BAE SYSTEMS has a proud heritage that dates back to the early days of manned flight and wireless communications.”* (BAE Systems, 2011)

BAE Systems Regional Aircraft was a major manufacturer of aircraft such as the Avro family of regional jets including the 146 and the Jetstream 31 and 41 as well as turbo prop aircraft. These aircraft achieved much success especially in Europe and the US market as the regional airline passenger market took off in the late 1980s and throughout the 1990s. However, despite the favourable factors at play such as new regulations which liberalised the market through open skies policies, no one could have predicted the 9/11 terrorist attacks on the World Trade Center in New York in 2001 which impacted enormously on the airline market and severely affected all players. Subsequently, regional passenger transport declined at an astounding rate. In addition to these catastrophic events, strategies being pursued by other players, particularly Boeing and Airbus, before and immediately following 9/11, had also changed the competitive environment and had made it increasingly difficult for the smaller players such as Regional Aircraft, Fokker and Bombardier to compete effectively against the bigger players in the market. The demographics of the passenger market had also changed considerably and increases in travel at a more global level ultimately implied that the regional market for aircraft was under threat as airline operators now required larger and more cost-effective aircraft to remain competitive and cope with global demand. Consequently, due to the variety of largely negative factors impacting on BAE Regional Aircraft, it took the decision to cease production towards the end of 2001. Its new strategy was based on providing an engineering support business from its UK base in strategic partnership with a number of small distributors of spares in the market, primarily Saywell in the USA. The company also retained its asset finance/leasing division which sought to place aircraft with customers globally as well as being active, though on a relatively small scale in comparison to other companies in this sector, in third party aircraft placements.

## 1. Marketing Environment

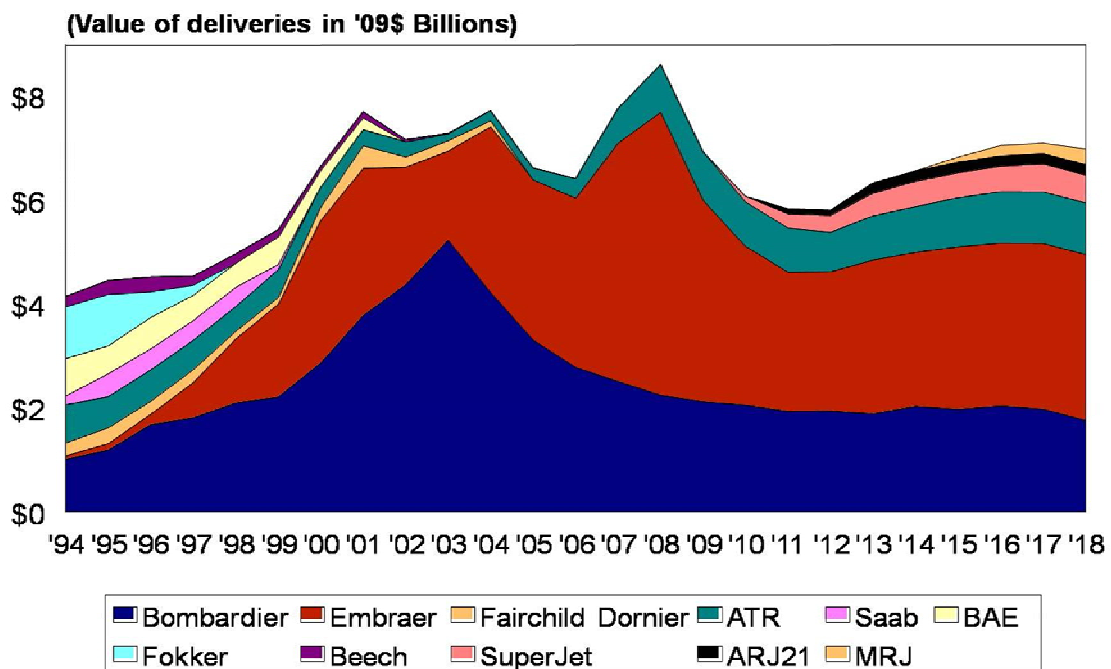
### a. Macro Environment

#### *Political and Legal Environment*

Political and legal factors are often perceived in terms of presenting specific threats or challenges to industry but in the case of air travel, in the 1990s, new legislation relating to “open skies” in the USA and in Europe, is regarded as a major factor impacting the sector positively, especially in the case of the low cost carriers. Regional Aircraft was able to benefit from such changes in Europe

## How Things Got Simple...For A While

### Regional Aircraft Manufacturers Market Share



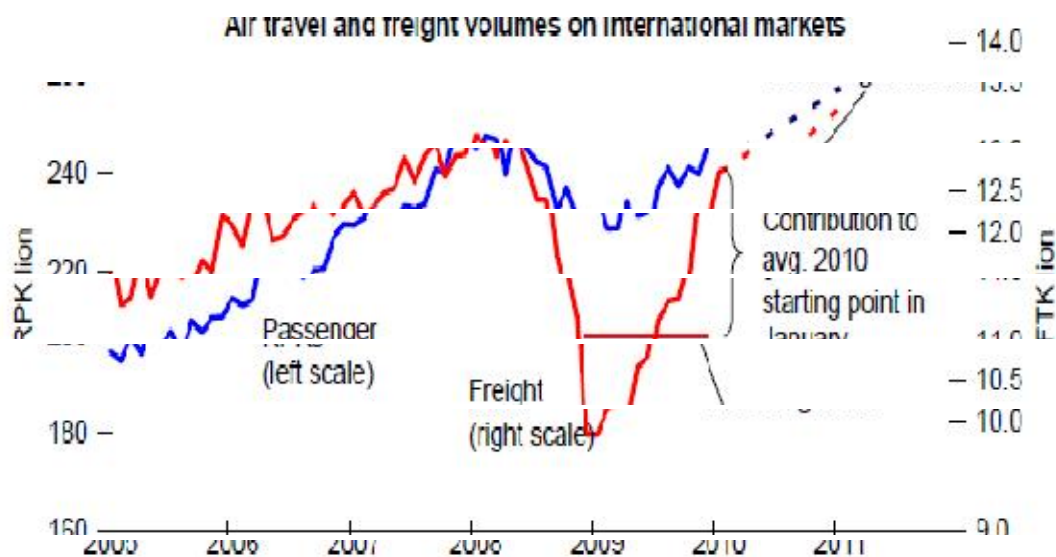
Source: Teal Group, 2009

More recent factors have impacted negatively for regional aircraft manufacturers as the pressure to be more fuel-efficient and eco-friendly has implied that manufacturers have had to radically alter their business models and produce more fuel-efficient aircraft. While the Regional Aircraft division of BAE Systems no longer manufactures, this impacted directly on its asset management business, as it became increasingly difficult to lease its aircraft as it is not considered to be eco-friendly or fuel-efficient. This is regarded as one of the main reasons as to why the division decided to sell its leasing business in 2011 as it appeared no longer viable for the company or as providing a “strategic fit” (Mintzberg, 1994)

### ***Economic Factors***

*“...international aviation is driven in large part by GDP growth and the nature and extent of the economic slowdown...” (Gillen, 2009, pg.3)*

Recessionary pressures globally impacted substantially on the sector, with the period 2008-2009 seeing many airlines going bankrupt. In the case of the maintenance, repair and overhaul sector (MRO), the recession also impacted substantially, as less flying hours implies less maintenance and support requirements. The negative economic climate also resulted in much consolidation in the sector, through alliances and merger as companies sought to try and improve their positioning through the difficult time period. However, economic factors can also vary substantially at a global level, and while the more recent economic pressures have impacted globally, there were some signs of growth from specific country markets, especially in the emerging economies. Overall, however, the chart depicted below highlights the impact in terms of global trade, which declined sharply during the period.



Source: IATA, 2010

Regional Aircraft was able to benefit from growth in many emerging markets and was able to place a number of aircraft from its asset finance division as demand for aircraft travel increased in markets such as Latin America, South East Asia and the Middle East. It has been particularly successful in Peru and Indonesia which implies further revenue from servicing going forward. Whereas it has become difficult to place aircraft in developed markets, primarily due to the age of the fleet as well as its less-environmentally appealing

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attributes, despite growth in developing markets, many are still not able to acquire newer type aircraft from Boeing or Airbus, for example, and so older fleets are much more financially viable for them in both passenger and freight markets. In addition, the design of the aircraft itself – is particularly appealing to the geographical features of many of these markets which are characterised by much less developed airport infrastructures. The BAE 146 jet, for example, is ideally suited to the gravel runways and short take-off and landing in Indonesia and Peru.

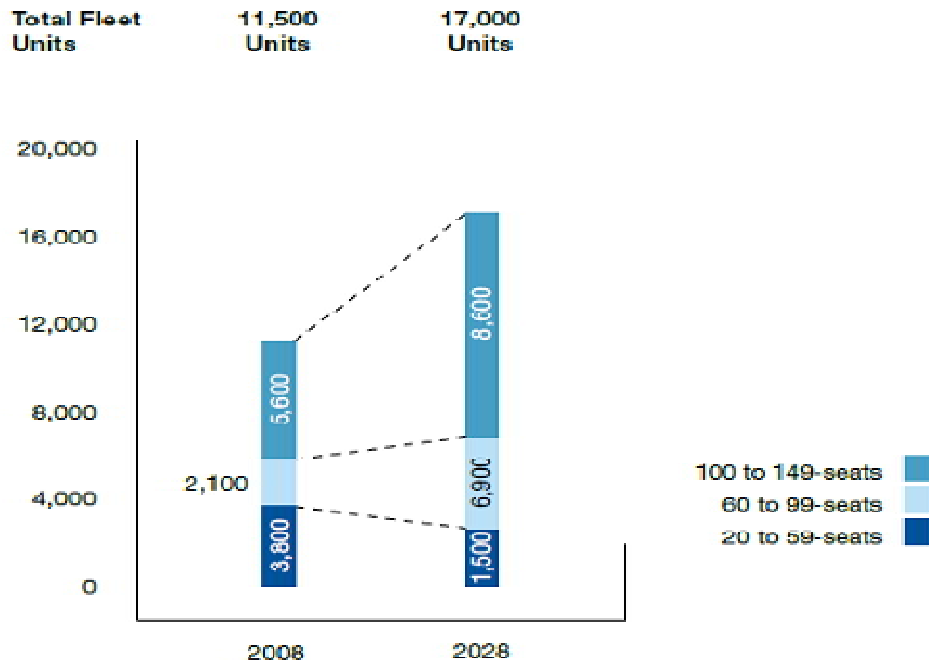
### *Social Factors*

Consumers globally have increasingly used air travel and the popularity of the low cost carriers has completely defined the competitive playing field. While previously, it could be argued that the major carriers, the incumbents, competed on high service levels, players such as Ryanair and Easyjet compete on price and availability and the same trends are now visible in developing markets in Latin America and in Asia. Globalisation and increased travel has also impacted directly on the demand for specific type of aircraft as they have gradually got bigger as the trend towards increased capacity is likely to continue as growth is driven by emerging markets. This makes the placement of the BAE fleet much more difficult. This increase in aircraft size is likely to continue going forward.



Source: Airbus, 2010.

## 20-Year Worldwide Fleet Forecast



### *Technological*

Technology has impacted all sectors enormously and in the case of Regional Aircraft, technology contributes directly to its capability in terms of sourcing parts and also substantially increases competitive levels as others may be better placed and have more sophisticated internal technology systems. In 2010, the company embarked on a major strategy to improve its internal MRP (Materials Requirement Planning) system, as it was recognised that it was continually failing customers in terms of locating and supplying parts needed for maintenance and repair. It has also adopted a “customer portal” so that it can respond more effectively to customers and increase its service levels, needed as the company is located on the West Coast of Scotland, and its customers are increasingly located in more geographically remote areas.

### *Environmental*

Heightened concern over global warming has impacted all sectors of business and society. The company has also done much to modify the technology used in its existing portfolio to

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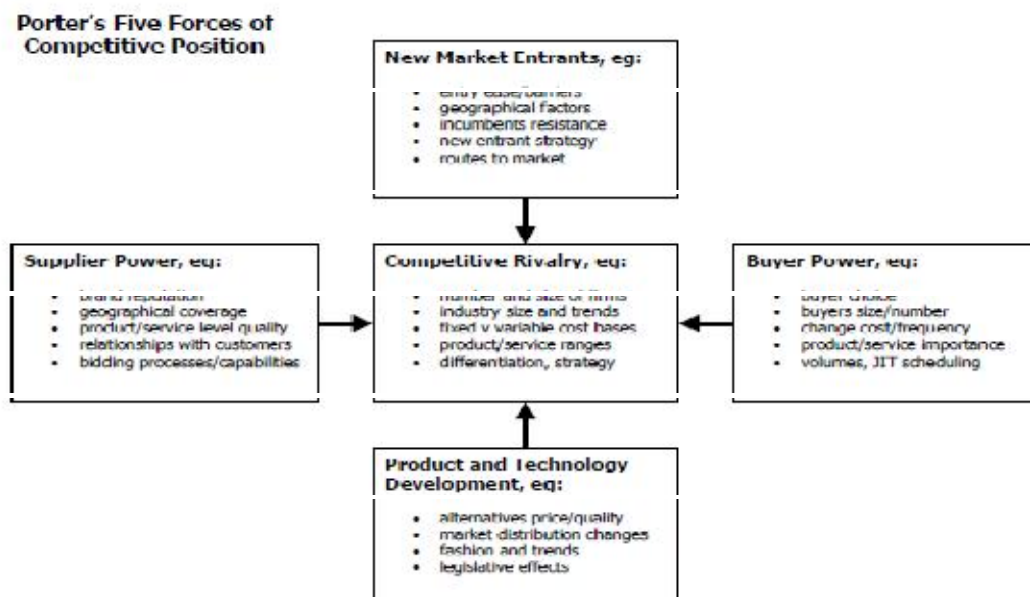
make it more environmentally sound and fuel-efficient, yet despite this, manufacturers such as Boeing, Airbus and Embraer have continually introduced new technologies which have substantially reduced the carbon footprint of their fleets. In conjunction with political and legal factors, this implies that newer aircraft are more appealing to operators as they are not hit with hefty penalties or fuel duties imposed on older and less fuel-efficient aircraft. This highlights how political forces arguably resulted in the success of the company, yet subsequently turned into a major threat which impacted directly on the viability of the business. Again, this highlights how a threat can in fact turn into an opportunity.

## **b. Micro Environment**

### **i. Porter's Five Forces**

*“As the product life cycle of the aircraft is 15-25 years...life-long support for the technical product has a significant cost impact...airlines have an interest in a competitive environment for the lifetime support...OEMs are increasingly seeking to play a major role in lifetime support...This would eliminate or at least limit the number of independent MRO organizations...From the perspective of an MRO provider it is important to challenge costs to stay attractive and competitive for customer airlines.” (Ijioui et al, 2009, Pg. 44)*

Porter's Five Forces of Competition (1979) is viewed as an appropriate framework in which to analyse the micro-environment of BAE Systems Regional Aircraft especially in terms of the competition, but also in many ways, in looking at the variety of stakeholders impacting on its business.



© alan chapman 2005, based on Michael Porter's Five Forces of Competitive Position Model.  
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Analysis of this business unit also shows the difficulty in terms of applying the model as it has moved from being a manufacturer to one which now competes with a wider range of sectors in the MRO, leasing business and spare parts markets. It also competes directly with firms such as Fokker, another player who ceased manufacture of aircraft but is now involved in the aftermarket for parts and servicing and also in the development of technologies for other players. **Threat of New Entrants**, is considered to be relatively low as most other



players in the sector are other OEMs who concentrate on their own aircraft types, or other MROs who increasingly concentrate on the most common Boeing and Airbus types. Clearly Boeing and Airbus dominate the market, followed by Embraer and these players keep entry barriers extremely high. Regional Aircraft technically operates in a niche market as the fleet is relatively small in numbers and shrinking as more aircraft demise and are broken up for parts. In addition, as the fleet relocates and ends up in more remote locations, servicing and maintenance becomes a problem as Regional Aircraft is so far away. It is able to offer ongoing technical support, a major source of income as regulations in place make it obligatory for aircraft to be certified for air worthiness by the OEM, however, the shipping of spares and other parts, is increasingly difficult as the fleet becomes more geographically dispersed. Additionally, the company knows that some operators and other spares companies have actually purchased aircraft specifically to break and thus acquire a pool of spares for redistribution to operators. Regional Aircraft has very little, if any, control over this. ***Threat of Substitutes*** is low but in terms of other aircraft, it is obviously high, especially in the asset finance business. The value of other legacy types such as Boeing has consistently fallen, and many prefer this aircraft type as they have more capacity, tend to be cheaper to operate and spares and parts tend not to be in ample supply in the market, unlike BAE Systems aircraft. It is also much easier for operators to find MROs with accreditation to service Boeing and Airbus, and again, this is considered as a major factor for the company disposing of its asset finance business earlier this year. ***Bargaining Power of Buyers*** is extremely high, and thus the price of aircraft in the secondary market has also continued to fall. As Ijioui et al highlight (2010) “*There is a buyer’s market for the airlines which ensures competition and reduces the unit cost for the airline.*” (pg.44) ***Bargaining Power of Suppliers*** is increasingly low as power has shifted towards the customer. Strategic alliances and joint ventures are also increasingly common as operators and MRO providers try to achieve advantage through collaboration and economies of scale in their supply chains. ***Degree of Rivalry*** has become intense in the spare parts and servicing market, and although in relation to the BAE fleet, it is controlled by relatively few players, these players such as Saywell and Casco are much more efficient and arguably, not restricted by the structural and organisational issues which might impact on BAE Systems.



## **2. Marketing Strategy Audit**

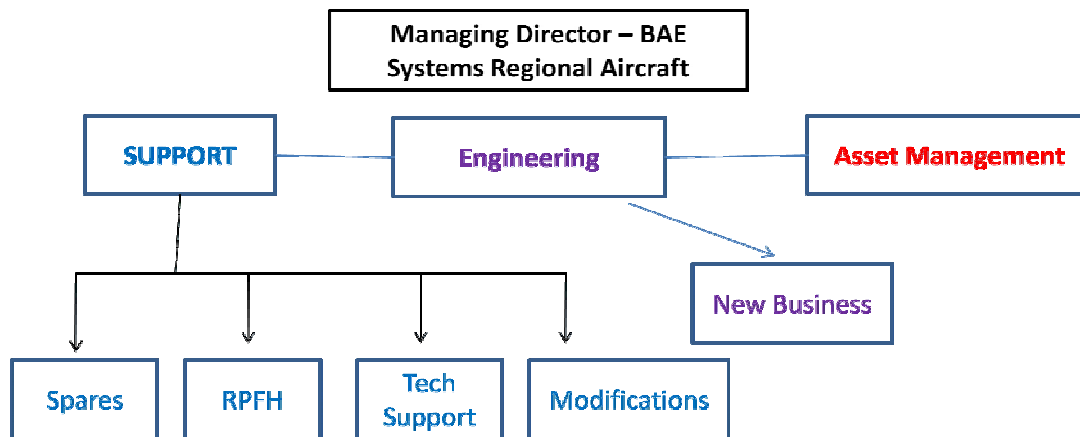
Regional Aircraft clearly finds itself in an extremely difficult and challenging market environment. While it may appear as being at an advantage in terms of being part of such an enormous global company which specialises primarily in defence, it appears to be somewhat dwarfed by this and on the peripheral of the overall company. There is no clear link between overall corporate goals and that of the regional aircraft division which appear to exist largely in isolation from the rest of the company. Analysis of the website highlights how the main focus still appears to be on the support of the fleet, yet over the longer term, this is not viable and thus puts into question the goals of the business. The company does have a modifications team who have been successful in terms of modifying the existing fleet for freight and more recently, business and luxury jets, particularly in the Middle East, yet this is not enough to sustain the business over the longer term and as the fleet diminishes further in terms of the end of life cycle, possibility is extremely limited. While the backing of the larger parent is viewed as a strength, within the division there is also an extremely talented pool of engineering expertise. A new business development team has also been created to explore opportunities in other related sectors such as power and renewables as it is thought that the same skills sets the company possesses are transferable to other areas. It has also been successful in acquiring a small piece of the business to be derived from the development of the MRJ (Mitsubishi Regional Jet) supporting the fleet in Europe once it is in operation. Again, this is over the medium to longer term and is not sufficient to sustain the business indefinitely. In 2010 the company also started an intensive training of some of its key support engineers to equip them with additional skills which would allow them to support other types, particularly Boeing as the market for the support of the BAE fleet further declines in Europe. While this seems a significant move, it is also the case that there are a number of players already in this market with much more expertise built over the years and competitive intensity shall be extremely high.

## **3. Marketing Organisation Audit**

Marketing Activity largely rests with attendance at trade fairs and various other expos which cost the company a substantial proportion of income, yet appears to date, to have failed in terms of acquiring new business. While attempts have been made at a much more service and customer orientation through the appointment of account managers, many of those employed are engineers as well as ex military, and while technical competency is a pre-

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requisite, they appear to lack the necessary sales and marketing skills required to effectively implement a CRM system. Much more collaboration is needed across the business and across the distinct functions which appear rather disjointed.



Note: RPFH – Rate Per Flying Hour

BAE Systems Regional Aircraft Structure, 2010

### 4. Marketing Systems Audit

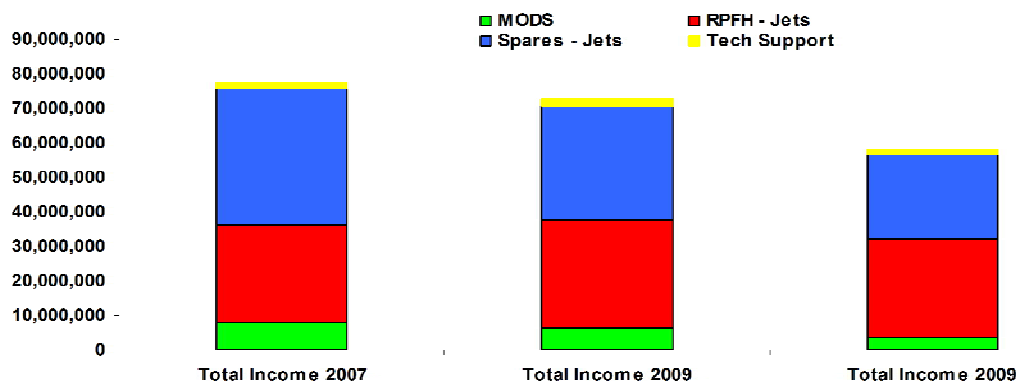
Until recently, the company was largely configured along the different product lines of Support, Engineering and Asset Management, with the Support Business having a further 4 income streams, again, structured around the product markets rather than customers. Although this may have appeared as a fitting structure after production ceased in 2002, much has clearly changed within the business and externally with regard to the market and customers. Although some attempts are made at cross-collaboration, especially between Support and Engineering, the structure and the location of the different divisions, makes it difficult to promote a culture of cross-collaboration and team working. It has also been highlighted, particularly by the account managers in charge with larger accounts, that often it is the case that one customer may purchase 3 or 4 different products, and has 3 or 4 different contacts within the business rather than deal exclusively with one to satisfy requirements. This clearly makes customer management difficult especially in terms of anticipating future needs and setting up the necessary planning tools to accommodate these. This is also highlighted by the inadequacies of the MRP system in place to date. Until 2010, within Regional Aircraft, there was technically only one person tasked with the Marketing function whose role was primarily organising trade events, and producing promotional material. A separate function was tasked with Communications (internal and external) and they worked quite closely with an external consultant based in the South East of England, involved in

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other parts of the larger BAE Systems. While all 3 had much contact, essentially they too were quite separate and each tasked with distinct functions rather than operating jointly. A Market Analyst was brought on early in 2010 to assist in terms of analysing the external market as well as the internal position of the business. This role turned permanent but appears to be largely involved with developing the current business rather than assisting in terms of new business development. A much more focused approach appears warranted so that the business can work together across objectives of developing the current portfolio as well as acquiring new business. There is still essentially a “Product focus” in line with its former manufacturing heritage but this appears as no longer fitting to the markets it serves, particularly from a service perspective

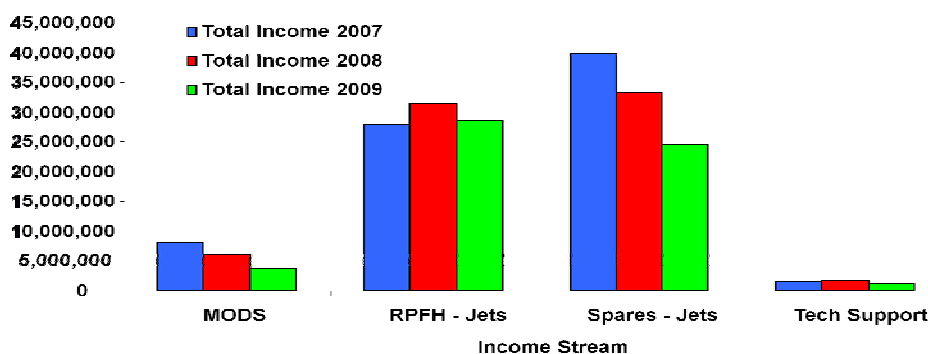
### 5. Marketing Productivity Audit

#### Income has declined year on year...



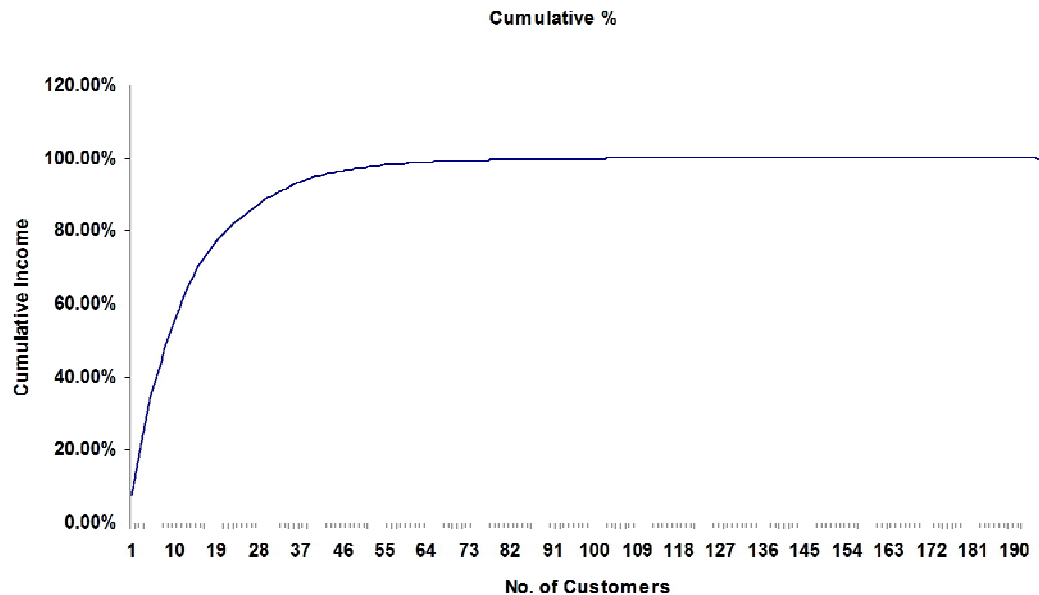
Source: BAE Systems Regional Aircraft Finance

#### ...from £76m to £58m in just 2 years



Source: BAE Systems Regional Aircraft Finance

**Portfolio of around 195 customers in 2009, 9 account for over 50% of total revenue and the top 30 contribute 88%.**



**Source: BAE Systems Regional Aircraft Finance**

The analysis has highlighted that the majority of income is derived from a small number of key accounts and that the fleet is gradually moving away from Europe to more remote locations. As the fleet ages, it is likely that these customers shall replace with new types and therefore a substantial proportion of revenue will be lost. The fact the fleet is relocating also implies that gradually, control over future income is diminishing and that much effort is required to ensure future revenue streams from these new customers. To make that happen, the company must build up its capabilities in these markets, probably through alliances and partnerships with MRO and spares companies in these regions.

## **6. Marketing Function Audit**

The current Marketing function appears to largely be perceived as promotion and attendance at trade shows, and while this is important in terms of communicating the company's capabilities and the potential of its business in terms of what it can provide to customers, it is too much focused on building up the current portfolio rather than the acquisition of new customers or in fact, the opportunities available in other markets such as Power and renewable energy. This does not imply that more individuals are required in terms of

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performing marketing functions, but rather, that a new mindset is required overall which highlights how Marketing, and particularly, customer management as well as new business development, is the responsibility of all employees and that a much more concerted effort is required in terms of working together and across the business, and especially in terms of communication and feedback between the different departments to create synergies, improve efficiencies and at best, incite the creativity process which could ultimately improve the business positioning in the market. New Business Development need to work more closely with the engineering department as well as with sales and the Marketing function should also look at other opportunities, not merely restrict itself to the attendance at MRO events but also at renewable energy etc. The enormous potential of the BAE Systems brand name should be fully exploited in this respect, offering it much advantage over competitors in terms of promoting any new business strategies.

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