

BUSINESS 478

Section D400

STRATEGIC ANALYSIS FOR:

BOMBARDIER



**Henry Cao
Anna Cui
Jeremy Rozenhart
Lucy Sun
Anna Zheng**

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SYNOPSIS

FIRM HISTORY

Bombardier began as a legacy long before it was founded as an organization. In 1922, when Joseph-Armand Bombardier was only 15 years old, he built his first snow vehicle in response to the harsh winter road conditions of Quebec, Canada. By 1937, he was able to launch his first commercial vehicle, the seven passenger B7 snowmobile.

Bombardier as a company, originally called L'Auto-Neige Bombardier Limitée, was not established until 1942. The company thrived through the 40's until 1949, when Quebec's new snow removal policy severely inhibited demand for snow vehicles. This challenge, however, also presented a new market opportunity in the snow removal business, which Bombardier quickly realized and began manufacturing snow removal vehicles.

By 1959 Joseph-Armand released the world's first Ski-Doo. Unfortunately only 5 years after the Ski-Doo's release, he passed away. His son in law, Laurent Beaudoin, took over the company in 1966, and began diversifying even further through acquisition. The oil crisis of 1973 resulted in a major reduction in snowmobile production (still their core product at the time), as well as an expansion into the mass transit industry. By 1974 Bombardier had already acquired its first train manufacturing contract with the city of Montreal, a contract for the production of 423 train cars.

Through the 1980s Bombardier became even more active and diverse. In one year alone they signed a contract to build 825 subway cars for New York City, expanded into Europe, and acquired ANF-Industrie, a major French manufacturer of railway equipment. In 1986 they purchased Canadair, thus inducting themselves into the aerospace industry, and within only three

years Bombardier released the first Canadair Regional Jet. The world famous Sea-Doo was also released in 1988, and before the end of the decade Bombardier even managed to acquire its first European aerospace manufacturer, Short Brothers plc.

Bombardier made several more acquisitions throughout the 1990s, mostly focused on strengthening their presence in the rail industry. With these acquisitions they entered the U.K., Mexico, and Germany. They also acquired two small aircraft manufacturers, and developed several aerospace innovations including the 415 amphibian, which was the most advanced firefighting aircraft the world had ever seen. The first ATV developed by Bombardier was also released during the 90s.

The company has continued to innovate at an increasing rate, and more recently they have released several new jets including private, courier, and commercial models. Bombardier has also become the global leader in rail equipment manufacturing through their purchase of Adtranz, a German leader in rail transport. This acquisition required them to move their transportation headquarters from its original home in Montreal to Berlin, Germany (Bombardier Annual Report, 2012).

ENVIRONMENT

Bombardier on Land

Bombardier operates in a global environment, so their business is subject to a vast array of cultural and economic climates. Currently they operate manufacturing facilities in North and South America, as well as Europe, and they serve countries outside of these regions as well. Their presence in China, for example, is growing even in spite of the decreasing demand for rail equipment. This makes for a multitude of uncertain conditions, as well as differing product

requirements to account for, and no small degree of operational complexity. Fortunately Bombardier has become highly adept at monitoring the varying trends in their areas of operation, particularly with respect to their primary focus, rail equipment. They have determined that the global rail market will continue to grow at roughly 2.8% per year until at least 2017, and have broken this number down into its continental components. The following are the expected annual sales growth figures for the next 3 to 5 years:

- Europe: \$4.6 billion/yr increase
- North America: \$3.2 billion/yr increase
- Asia-Pacific: \$0.6 billion/yr decrease
- Rest of World (CIS, South America, Central America, Africa, Middle East): \$7.2 billion/yr increase

The “Rest of World” component of these estimates includes the fastest growing economies served by Bombardier, which is why the estimate for that region is so significant. The main growth drivers in these regions are Russia, Brazil, and the Middle East. These areas alone account for \$5 billion of the expected growth in the rest of the world.

The forecasts for Bombardier’s rail transportation are looking positive in spite of the remnant economic distress caused by the 2008 recession, but this does not mean that they are exempt from abrupt changes, or that they will undoubtedly be able to handle anything that comes their way. Spreading themselves across the globe means that if a major economic or even natural calamity is to occur in one of their operating regions, it has the potential to heavily impact the company as a whole (Bombardier Annual Report, 2012).

Bombardier in the Air

With respect to rail transport Bombardier is a global leader, meaning they have very few competitive threats, but in the aviation industry they face much fiercer competition. Since they are relatively new to the commercial aircraft industry, in which Boeing and Airbus are well established, they stand to encounter much greater obstacles. For example, when Bombardier first came out with their “C-Series”, it competed head to head with Boeing’s 737 and Airbus’ A320. The difference was that the C-Series was lighter and 12% more fuel-efficient than its competitors (Wilhelm, 2012). However, the potential threat from Bombardier prompted Boeing and Airbus to improve the design and efficiency of their planes and launched the 737 Max and A320neo respectively. Due to this the company was not able to make the impact they had wanted with their C-series, as airlines had only ordered 72 of Bombardier’s CS300 in 2012 versus over 900 orders for Boeing 737 Max and over 1500 for Airbus A320neo (Wilhelm, 2012).

CURRENT SITUATION

Bombardier’s mission statement is:

“Our mission is to be the world's leading manufacturer of planes and trains.

We are committed to providing superior value and service to our customers and sustained profitability to our shareholders by investing in our people and products.

We lead through innovation and outstanding product safety, efficiency and performance.

Our standards are high. We define excellence—and we deliver.” (Bombardier, 2013)

Current Products and Services

Bombardier is the only manufacturer in the world that makes both planes and trains, thereby enabling transport by land and by air simultaneously. There are therefore two broad segments to Bombardier: Bombardier Aerospace and Bombardier Transportation.

Bombardier Aerospace is responsible for designing, manufacturing, and supporting aviation products. It focuses on developing industry-leading products, expanding its international presence, and achieving flawless execution. It has over 35,500 employees and a leadership position in the business aircraft market. The product portfolio of this segment is comprehensive, as it includes business, commercial, specialized, and amphibious aircrafts. Bombardier Aerospace also manufactures aircraft parts, and provides training and maintenance services.

Bombardier Transportation is the global leader in the rail industry. It is committed to developing innovative and cost efficient solutions, capturing the full potential of fast-growing markets, and again achieving flawless execution. It has over 36,000 employees, 64 production/engineering sites around 26 countries, and 19 services centers worldwide. This segment of Bombardier has installed over 100,000 rail cars and locomotives around the world. Bombardier Transportation offers innovative rail transportation solutions, including a range of rail vehicles, propulsion and controls, bogies, rail control solutions, and customized transportation systems. It also provides services such as vehicle refurbishment, modernization, maintenance, and material management (Bombardier Annual Report, 2012).

The J. Armand Bombardier Foundation

Aside from offering transportation products and services, Bombardier commits to its corporate social responsibility and is very active in philanthropy. In 2012, The J. Armand

Bombardier Foundation donated \$6.3 million to communities in need, and also pledged to donate more than \$11.6 million over the next nine years (Bombardier Annual Report, 2012).

Performance

In the fiscal year of 2012, Bombardier generated revenues of \$16.8 billion (approximately \$8.6 billion from Bombardier Aerospace and \$8.1 billion from Bombardier Transportation), an adjusted net income of \$692 million, an adjusted EPS of \$0.38, and a record level backlog order of \$66.6 billion. Bombardier Aerospace was able to capture 32% of the business aircraft market share (in terms of units delivered), and 36% of the 20-99 seat aircraft market share (in terms of units delivered). Bombardier Transportation identifies Europe as its largest market for rail transportation, North America as a potential market for high-speed transportation, and will focus on urban mass transit systems in the Asia-Pacific market (Bombardier Annual Report, 2012).

CURRENT STRATEGY

Business Strategy: Differentiation

Bombardier differentiates themselves from their competitors by constantly providing customers with customized and innovative products. Their flagship “Global” aircraft family is the first in the industry that will span the 5200 to 7900 nautical mile range. With Bombardier’s experienced and innovative team, the company has established various customized products to meet customer needs, which includes the electric vehicle PRIMOVE for Germany, and the OMNEO regional train with significant energy consumption reduction for France. They are also

developing the high speed train ZEFIRO 380, which will be the world's fastest, highest capacity, and most eco-friendly train in commercial operation (Bombardier Annual Report, 2012).

Corporate Level Strategy: Moderate to High Levels of Diversification

Bombardier has a related linked corporate strategy. They manage two primary segments: Bombardier Aerospace and Bombardier Transportation, and offer a wide range of products and services from these two segments. In the fiscal year 2012, the two segments each contributed about half of the total revenue. Only limited links exist between these two segments, as land transportation and aerospace products do not share the same technological and distribution requirements.

International Strategy: Transnational

Bombardier seeks to achieve global efficiency, while tailoring products for different markets. They have forged multiple strategic alliances with companies in different countries to insure their steady growth around the globe, and have also established several joint ventures in China, including Bombardier Sifang Transportation Ltd, Shengyang, Aircraft Corporation, and Shanghai Shentong Metro Group. Their strategic partnership with Elteza, a subsidiary of Russian Railways (RZD), has strengthened their position in the promising rail signalling market as well (Bombardier Annual Report, 2012). To improve the availability of components and reduce the cost of repairs for its aircraft operators, it has entered into another strategic alliance with Fokker Services (Reuters, 2011). These strategic collaborations have contributed greatly to Bombardier's success.

With 80 engineering and production sites in 26 countries around the globe, Bombardier managed to expand its operation in North America, Europe, Asia-Pacific and South America. Their monorail manufacturing site in Brazil has increased Bombardier's presence in the country's fast-paced rail market, and by establishing a new manufacturing facility in Morocco Bombardier will be able to gain additional proximity and sub-assembly capabilities in Europe. In order to effectively compete in growing markets, Bombardier will continue expanding their presence and capturing opportunities in fast-growing countries like Brazil, Russia, India and China (Bombardier Annual Report, 2012).

STRATEGIC CHALLENGES

In order for Bombardier to remain competitive and profitable in the future, they will need to address many strategic challenges. The main strategic issues that Bombardier will face are: new entrants into the market, poor planning and execution, and expanding into unfamiliar markets.

New Entrants into the Market

Bombardier faces fierce competition from their regional jet Brazilian rivals, Embraer. Embraer has been quick to respond to Bombardier's new announcement of their CS300 planes and expects to officially launch a new version of their own E-Jet airliner later this year. The Brazilian manufacturer is expected to follow suit and use the same plane engines as that of the CS300 in hopes of minimizing Bombardier's fuel efficiency advantage while using their E-Jet brand to push regional airliner sales (Deveau, 2013). The company also expects strong

competition from other Asian manufacturers as they try to take control of the developing Asian markets.

Poor Planning and Execution

Bombardier's CEO, Pierre Beaudoin recently admitted to execution issues that have plagued the company and attributed to the poor fourth quarter results for 2012. Overall revenue rose due to Bombardier Aerospace while Bombardier Transportation saw decreasing margins (Marowits, 2012). Although the final assembly of their new CS300 small commercial airliners will be in the Mirabel plant that is located outside of Montreal, many of the components were outsourced to plants in China and Northern Ireland. The design of these new planes also called for many new high tech composite materials to be used to achieve better fuel efficiency. However, their main fuselage supplier, Shenyang, has had almost no experience dealing with these new composite parts (Bhaskara, 2012). As a result of poor planning and execution, Bombardier's new class of airlines have been plagued by supplier issues and has delayed the unveiling of their new airliner.

Expanding into Unfamiliar Markets

The current short to medium ranged passenger airliner market has been dominated by Bombardier's competitors, Boeing and Airbus. Boeing's 737 passenger jet, is the world's best selling passenger aircraft in the world with Airbus's A320 coming in second. These two companies have been building passenger jets for decades and already have long established contracts with many of the world's largest airlines. Both these companies also have the support of their respective governments, with the United States government supporting Boeing and the

European Union backing Airbus. These companies are able to benefit from economies of scale to reduce costs and improve production speeds. Bombardier on the other hand, has never been in these markets and will have to face difficult challenges trying to compete with these companies head on. Bombardier will need to address these challenges that are facing their strategies in order to remain ahead of rivals while expanding into these new markets as investor focus turn to the future of the C-Series program (Marowits, 2013).

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