

Corporate Strategy: Innovation and the Boeing turn around.

By Bayo Adesanya, July 2006

Strategy Group, Phillips Consulting Limited

In 2003, I wrote a paper on the travails of Boeing, the American aircraft manufacturer. The company was then bedevilled by the lack of a clear corporate strategy. Harry Stonecipher had replaced Phil Condit as the CEO but he was also soon forced to step down over allegations of illicit affairs with female employees and questionable contract dealings with the government. In contrast, Airbus, the collaboration between Europe's leading nations, was enjoying an unprecedented visibility and dominance within the industry, out-selling its American rival consistently between 2000 and 2005. This performance was largely fuelled by the successful development and impending launch of what has become the world's largest aircraft, the Airbus A380, as well as the smaller A350. The A380 'Super-jumbo' was being built by leveraging on the unique technical strengths of each member nation involved. More importantly, each A380 would carry 500 passengers on the lucrative transatlantic flights at once, thereby achieving economies of scale (reducing running costs) and producing less environmental waste per passenger than its closest rival, the Boeing 747. In the aftermath of the terror attacks of September 11 2006, the idea of not breaking long journeys and thereby avoiding multiple take-offs and landings appealed to customers. The Airbus would deliver this. Not surprisingly, the European aircraft maker controlled about 60% of the market within the 5 year period.

Two major reasons adduced for Boeing's spectacular fall were **greed** (management preferred to focus more on juicy government defence contracts) and **corporate lethargy** (i.e. an unwillingness to update production-line techniques for its commercial aircraft). The loss of focus on Research & Development meant that management stalled on recommendations received long before 2003 to build either a super-jumbo or smaller but faster 220 seat jetliner thereby losing valuable research time in the process. The smaller jet option was eventually adopted as the main thrust of the company's strategy but only after Airbus had begun building the A380. Thus the Boeing 787 project, also called the 'Dreamliner', was born.

What a difference three years can make! The world is once again witnessing a complete reversal of fortunes for both aircraft manufacturers with Boeing once again in the ascendancy while Airbus is struggling with the real problems of its joint venture i.e. delays in production for the A380 and weak sales of its answer to Boeing's Dreamliner, the A350. Airbus recently appointed Christian Streiff as its new CEO as part of efforts to navigate through these troubling times. As at July

2006, three hundred and sixty (360) Dreamliners had been ordered compared to just one hundred (100) orders for the A380. Why is the American manufacturer suddenly the toast of the aviation industry again?

The Environment

Firstly, there have been significant changes in the global economic environment which has been reeling under the effects of high oil prices occasioned by the political instability in the Middle East. The Iraqi insurgency ensured that the price of oil skyrocketed to new heights but even this has been upstaged by the current impasse involving kidnapped Israeli soldiers. Crude oil has now crossed the \$80 per barrel mark even as the crisis shows no immediate signs of abating. The high cost of jet fuel means that the Airbus' less fuel efficient four engine planes are less attractive to Boeing's twin engine based models. Airlines are simply balking at the prospects of running up huge fuel costs for operating the Airbus Super jumbo, especially as passengers now generally enjoy lower airfares compared to the years before 2001.

Innovation

Secondly, Boeing's return to innovation as a source of competitive advantage in the design of the 787 means that the plane is not only more fuel efficient than its rivals but also less expensive to maintain. The company invested heavily in carbon-fibre research and this effort has paid off. Carbon fibre is a light weight composite material that is increasingly being used instead of the traditional aluminium metal in the construction of aircraft and some sports equipment. The reduced weight results in lower fuel consumption and what industry experts claim is also a more comfortable ride for passengers.

Outsourcing

Thirdly, the 787 costs about \$125 million, which is significantly less than the list price of \$280 million for the A380. Boeing has achieved this by outsourcing most of its production to external contractors in a move that mirrors Airbus' production approach for the A380 except that the former has been more aggressive than its European rival in doing so. As a result of these improvements, the Dreamliner will be fully operational by 2008—two years before the A380 which is promised by 2010.

Vision

Above all else, the rediscovery and dogged pursuit of a sound corporate vision was vital to the improved performance at Boeing. It is instructive to note that the emergence of Airbus at the turn of the millennium coincided with the era of Executive Management instability at Boeing. New CEO Alan Mullaly was however

able to drive a corporate strategy based on the belief that the future of commercial aviation belonged to smaller, faster and more fuel efficient aircraft. These aircraft would launch a departure from the traditional hub-and-spoke airline flights system to a more direct 'point-to-point' system.

In summary, a good strategy coupled with *innovative* and *improved* processes have propelled Boeing back to the top of its industry. While the company did not have any direct control over the political and economic incidents in the international arena, the focus on a superior technology enabled it to take advantage of the 'gaps' in demand that have arisen from increased oil prices. This lesson holds true across industries and businesses. Innovation is the true source of sustainable competitive advantage.