

Being Boeing (B)¹

Boeing had been losing market share to its lower cost European competitor Airbus for four years between 2000 and 2004, and the company had to make some changes to regain

market share. One of the changes implemented to help to compete with Airbus on price, as changes in the market since the Sept. 11, 2001 terror attacks had changed customer price sensitivity. Others wanted to stay the course on price and quality with more expensive planes that lowered total cost of ownership, but lost it with a better sales force.

Lower price, according to Boeing's CEO Terry Steinbocker, was off the table, especially since Boeing had several superior products in the pipeline. These products were far ahead of Airbus' competing models.

Sales Force

Stonecipher tapped Scott Carson, who was named Boeing's top salesperson in 2004, to act as the company's answer to the dynamic sales chief at Airbus, John Leahy. Leahy seemed to be present for every deal Airbus made until the sale was finalized.

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Under Carson, Boeing set up six regional sales teams. Each would have the ability to negotiate directly with customers and cut out the bureaucracy that had previously hindered the company. By delegating control at the regional level, Scott Carson hoped to increase Boeing's flexibility in deal making.

During negotiations, customers could now check in with the regional command without having to wait for a lengthy approval process. It was also intended to change the sales team's reputation for being uncommitted and arrogant. To that end, he insisted someone meet with each of Boeing's customers multiple times every quarter.

Product Redesign

Boeing's jets, according to the CEO, warranted the higher price tag. Boeing held extensive conversations with clients to gather the [voice of the customer](#). The 787 Dreamliner, originally slated to be named the 787, was redesigned beginning in 2003. Rather than being customized for individual airlines, it was outfitted with standardized features, meaning it could move easily from one carrier's fleet to another. It utilized carbon fiber reinforced plastic instead of aluminum in their wings reducing fuel costs, making it less expensive to operate.

These benefits were very real for the cash-strapped post-9/11 commercial airline market.

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“Scrambling from second place has been a powerful motivator,” Carson said. “We were pitting the 787, which had already benefited from three years of conversations with these customers, against whichever version of the A350 that Airbus was bringing to the table that day.”

Though Leahy would claim Boeing was doing unprofitable deals to gain market share, Carson denied the allegation.

Finance

Boeing’s conversations with airlines also revealed the intense financial pressure they faced in

The past 12-18 months, volume was down, though projected to get over time. To create value, Boeing ventured into financing.

First, Boeing made it easier for companies like International Lease Finance Corp., both Boeing’s and Airbus’ largest customer, to rent airplanes to use by one airline to another carrier. The bankers and financiers also wanted newly designed airplanes to have only one engine type, which again made them easier to rent. However, the airlines wanted more than one engine option because it allowed them to customize their fleet to different route lengths and seat capacity. However, such customization also decreased the selling price of a plane on the secondary market, a factor that financing companies had to consider when extending credit to airlines for buying airplanes.

Boeing decided to produce the 787 with two engines but assumed each could be changed out for the other in no more than 24 hours. It was a win-win for the bankers and airlines. Airlines gained flexibility to customize each plane. The standardized engines assumed planes were easier to sell on secondary markets.

Second, Boeing launched its own asset management company in 2005. Given the tight credit market and declining airline profits, they needed assistance in capital financing. Boeing’s asset management company allowed it to sell more planes while retaining a healthy collateral. “Early in the program we started talking with a broad array of financial institutions,” said Mike Bell, head of the 787 financing program. “That’s part of the goal: get as many new investors in airplanes as possible.”

Customer Response

After four years in Airbus’ jet wash, Boeing regained its position atop the airline manufacturing market in 2005.

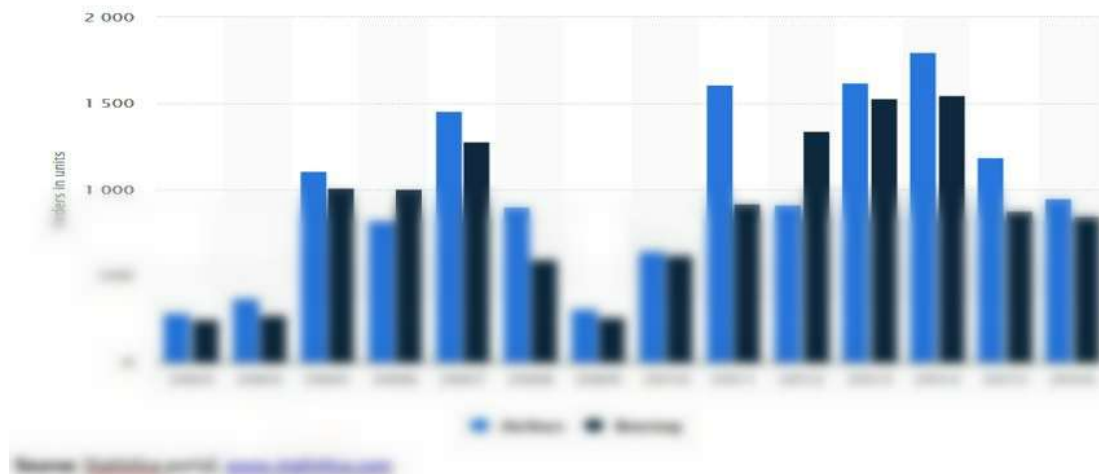
Leading the return to dominance was Boeing’s redesigned 787 Dreamliner. Where the U.S.-manufactured airplane had drawn 266 orders and commitments from 21 airlines by the end of 2004, Airbus had only 30 orders from two airlines on its comparable A350. The first 787s began hitting airports in mid-2008; the A350 lagged two years behind.

Meanwhile, Airbus saw mounting troubles. Airbus' sales chief John Leahy, who was involved in almost all of the company's deals, had a health problem in mid-2005. Meanwhile, Boeing relied on six regional sales directors to act much like Leahy around the world.

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Leading the return to dominance was Boeing's redesigned 787 Dreamliner. When the U.S. manufacturer shipped just three 787 orders and commitments from 21 airlines by the end of 2008, Airbus had only 10 orders from two airlines on its comparable A350. The first 787 began flying airports in mid-2008, the A350 lagged two years behind.

Figure 1: Number of aircraft ordered from Airbus & Boeing from 2003-16



Source: Statista portal, www.statista.com

Figure 2: Stock Market Performance Boeing, EADS, Embraer (Relative to Dow Jones index)



Source: www.finance.google.com

Table 1: Boeing Versus EADS (Airbus): Key Financial Figures

A: Boeing									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sales and other operating revenues (million \$)	31,215	30,196	30,969	30,202	32,207	34,902	41,708	46,207	48,998
Cost of products and services (million \$)	41,712	40,719	41,499	41,862	41,822	44,286	50,427	49,270	50,212
Net earnings (million \$)	2,128	2,827	462	718	3,872	3,872	3,219	4,878	2,872
EPS (million \$)	2.48	3.46	0.62	0.86	3.29	3.27	2.88	4.38	2.78
Total assets (million \$)	41,838	48,342	51,342	51,822	51,862	49,898	51,784	50,888	51,718
Total commercial passenger airplanes built	489	527	561	581	581	589	588	641	578
With net earnings (total assets)	6.871	6.828	6.888	6.814	6.822	6.862	6.862	6.868	6.828

B: EADS (Airbus)									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues (million \$)	24,248	24,748	24,861	24,112	24,761	24,248	26,224	26,112	25,242
Cost of sales (million \$)	20,872	20,201	20,461	20,288	20,248	21,248	24,712	24,862	24,867
Net income (Profit after taxes) (million \$)	488	1,272	288	218	1,221	1,748	118	427	287
EPS (the profit of operations and <u>exceptionally</u> (million \$)	-	1.78	0.27	0.28	1.38	2.11	0.12	0.58	0.38
Total assets (million \$)	41,868	48,712	48,218	48,278	48,267	48,888	51,217	51,488	51,212
Deliveries built	511	522	561	581	581	578	641	641	641
With net income (total assets)	6.822	6.828	6.888	6.888	6.822	6.828	6.822	6.888	6.822

Note: EADS's Cost of sales, net income, EPS, number of planes, total assets, and WACC for 2000-2008 are based on its International Financial Reporting Standards (IFRS).