

# DOWTY ROTOL

CONFIDENTIAL TO  
DOWTY ROTOL  
EMPLOYEES

# STOP PRESS

## Facing Our Markets

Earlier this year presentations were made and a newsletter issued to employees outlining our plans for the next three years. We stressed the increase in international competition which is making it more difficult for us to obtain profitable business.

We believe that it is important to illustrate to employees that statements like “we need to be more competitive” and “we must reduce our costs” can be supported by hard facts.

As well as the intense competition we face to obtain new business we are constantly being pressed to reduce or freeze our prices on existing projects. We cannot ignore these requests. If our customers, the aircraft manufacturers, cannot sell their aircraft because the price is too high, then this has a direct effect on us.

### The examples below show some of the recent requests we have received from our customers

Customer — **Shorts**

Project — **SD360**

A 15% discount to assist in securing a contract for up to 40 aircraft.

Customer — **British Aerospace**

Project — **Tornado**

A 5% price reduction for the next 250 aircraft sets.

Customer — **McDonnell Douglas Aircraft Company**

Project — **AV8B**

No price increases for the next 2 years.

Customer — **British Aerospace**

Project — **Sea Harrier**

A 7½% price reduction on an order for 8 aircraft sets and spares for the Indian Navy.



*BAe Jetstream 31*



*BAe Sea Harrier*

Customer — **British Aerospace**

Project — **Jetstream 31**

No price increases for the next 3 years. Request that we supply free of charge 10 propellers to assist them in obtaining an order for 50 aircraft.

Customer — **Airbus Industrie**

Project — **A310**

No price increases despite major modifications to the landing gear. We are supplying the modified gear at the old price and therefore not making any profit.

Customer — **Airbus Industrie**

Project — **A320**

Request for 15% price reduction to assist in selling more aircraft.

Obviously, these customer requests are part of the negotiating process showing the intensely competitive nature of our business and the pressure we are under. We also have to remember that there are not that many potential customers for our equipment.

This is not some imaginary threat dreamt up by Dowty Rotol management at the time of pay negotiations. It is real as illustrated by the letter below, dated 10th July, 1987, from Sir Raymond Lygo (Chief Executive of British Aerospace) to Tony Thatcher (Dowty Group Chief Executive), following the order for 72 BAe 146s.



BAe 146

Dear Tony

As you will know from recently published statements in the Press, British Aerospace plc, is embarked on a major programme to improve our level of operating efficiency and my purpose in writing to you, as one of the key suppliers, is to enlist your support and co-operation.

The driver for this effort, which includes all "in-house" and supplier activities, is the increasingly competitive markets in which we sell our products, and yours, to U.K. and Export customers. The initial target of an overall 20% reduction in costs by 1990 and a further 13 1/3% by 1992 is based on a careful analysis of our future markets and the economies we must achieve to remain competitive. We must succeed, since failure to do so would put all our future business prospects in jeopardy.

As part of this programme, which we regard as a joint effort between ourselves and our suppliers, we would ask you to institute a cost reduction programme within your organisation aimed at achieving the required savings. To support this, the Senior Executives with whom you deal in each BAe Division will identify to your company, their planned purchasing requirements until the end of 1990 and beyond. They will discuss with you the best approach for your company and any assistance you feel you may require from BAe, to meet the targets we have set. I have tasked each of my Divisions to submit a first report to me on this campaign before the end of 1987.

This task will not be easy, but with your full co-operation I am confident we shall achieve our goal and our success will ensure we are all in a position to take full advantage of the business opportunities that lie ahead.

## The way forward

We cannot ignore the increased competition which is leading to pressure to reduce our prices. If we do not respond by reducing our costs we will not make sufficient profit to justify the investment we need. We all need to work together to reduce our costs, improve our efficiency, and secure our future.