General Electric

Strategic Management

Dr. Gregg

The University of West Alabama

Alejandro Castellon, Christopher Simon, Leslie Roberson

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I. Major Problem

The major problem of General Electric, Inc. is divestiture and acquisitions. Divestiture can be defined as the selling a part or a whole division in an organization and an acquisition is and asset bought by the company to gain control and hope to improve. General Electric divested the transportation finance unit in 2015. In 2016, Haier acquired General Electric's appliance division. General Electric also just got approval to combine the Oil and Gas segment with Baker Hughes. GE's water business was also divested. Lastly, GE plans on selling its lighting business not located in the United States. This is a major problem for the company because divestiture and acquisitions are long sensitive process that requires the most attention from the company leaders. The company has not managed their assets well enough in the past to continue to be involved in acquisitions. Buying new assets and not paying them off will also increase the debt ratios and more. If something goes wrong during the process it can cause the company to lose money. This is a major problem for GE because the company has been over doing those two processes and the company has not gained any competitive advantage from it. It is also a major problem for GE because it draws the attention away from the main sections that GE wants to focus on. The longer it takes for GE to focus on the main sections it wants to and come up with a plan to profit from it, the more potential customers and profit GE is losing.

Critical Sub- Problems

General Electric's top executives structure could be considered a sub- problem. There are twenty four Vice Presidents, Senior Vice Presidents and sectional CEOs listed not including the CEO of General Electric. There are several sectional division Chief Executive Officer's which should be responsible for people under their division instead of the main CEO. Twenty four people report directly to the CEO of General Electric, John Flannery, which could be chaotic. This could also be considered too many people for one person alone to hold accountable and be responsible for. Having this many executives could cause havoc in the workplace, especially for a lot of employees having to report to the CEO.

With General Electric being a power producing company, this could cause harm to the environment. With this being a problem with every power generating company, it would be best for GE to come up with plans to better the production and reduce the harm put out. This could hurt the company's rep if GE does not come up with a solution. If GE could do better and not let out so much pollution, this could bring in more customers and show that the company is trying to improve the environmental harm. Improve this will also bring in more customers for the company and make GE look better in this department. In the early 2000s, GE was posing a threat to the health of the environment. The company was using organic pollutants which were harming rivers and were linked to causing cancer and other health problems. Eventually the environmental protection agency saw that GE posed a threat. Since then, General electric has continued to improve this problem and try to become more eco-friendly and become more trustworthy (Sullivan & Schiafo, 2005).

Financially, the company needs to improve on the profit of the company. With an increase in the company's goodwill, it shows that GE is still paying to much for the acquisitions. The best ratios for the company in the year 2017 were the quick, debt to asset, inventory turnover, and fixed asset turnover ratio. This was not a good look for the company in the year 2017. The problems that were consistent for GE was the ability to produce income from the assets. General Electric also has a high debt to equity ratio which is very harmful. There was a decline in the revenue by 1% and net income has also gone down due to the increase of COGS and operating expenses. The most benefit the company was from the tax reform.

II. Alternative Strategies

A strategy that General Electric could use is market penetration. This strategy could benefit General Electric greatly if implemented correctly. In the case it says that General Electric wants to focus on three divisions which are Aviation, Renewable Energy, and Healthcare. Implementing this strategy is the way to expand GE's market share in these divisions. By focusing on developing better products for airlines, coming up with better ways to have clean energy, and improving healthcare technologies GE can really increase its market share. Advantages of this strategy are the following: First by focusing on its current customers GE can retain them and build brand loyalty. Second is that other companies might be interested in working with GE as well. Third advantage is the potential increase of market share and sales. A disadvantage of this strategy is that if implemented incorrectly it would lack the desirable results. Second disadvantage is reduced profits if implemented incorrectly. Third disadvantage is, inability to meet demand if the success of the strategy is much higher than expected. The functional areas that would be part of implementing this strategy would be management, marketing, research & development, and operations. Management would plan and organize the implementation strategy. Marketing would come up with new ads and ways to reach closer to the customers. Research & development would come up with new products that will help expand those divisions. Operations would check the costs of creating new products and find ways to reduce it.

Second strategy that GE could use is horizontal integration. This strategy would be more focused toward the Healthcare division because the barriers to entry in this division are high according to the case. If GE wants to become a key company in this division, a way to do it would be acquiring successful companies that are in this division. By doing that GE will overcome the barriers to entry in this market. Advantages of this strategy would be to increase market share as GE would have the customers of the company it acquired. Second advantage would be increased differentiation as the company will be able to offer more products features to customers. Third advantage would be increased sales. A disadvantage of this strategy is that it could be seen as GE is trying to monopolize the market and be fined for it. Second disadvantage would be reduced flexibility since the company now is a larger company. Third disadvantage is stunting economic growth of the new enterprise. The functional areas that would be part in implementing this strategy would be management, finance, and legal. Management would plan and organize the implementation of this strategy. Finance would check how this would impact the company financially. Legal would check the legal ways of implementing it without breaking the law.

Third strategy would be divestiture. This strategy would greatly benefit GE because it would allow GE to sell the divisions that are not doing great, and focus on the ones that are profitable and that can grow. Advantage of this strategy is that it would allow the company to focus on the divisions it wants to grow. Second advantage is that it would cut costs of the company since it would sell some of its divisions. Third advantage is the company can use the money generated from those sells to finance the new strategy. A disadvantage of this strategy is the contractual obligations that GE has with other companies in this division, which must either go with the divested business or undergo modification to remove the references. Another disadvantage the negative impact on a company's cost structure. If a company has spread its fixed costs (including rent, maintenance, personnel allocation and administrative support) over two or more business units, the remaining business units must now absorb those costs. The functional areas that would be a part of implementing this strategy are management, finance, operation, and legal. Management would plan and organize how to best implement this strategy. Finance would check the impact of this strategy financially. Operations will check how much cost will be reduced by divesting certain divisions. Legal would come up with the best way to divest the divisions without breaking any laws.

III. Solution

The solution for GE would be market penetration. We think this would be the solution for GE because by focusing on its current products and market GE can find ways to increase the market share of the three divisions it wants to focus on. GE can develop new ads or promotions to reach its customers and incite them to buy more. By coming up with great advertisements and promotions on each of those divisions GE could really increase its market share. In aviation GE could advertise how its turbine is very cost effective as it uses less fuel than other companies' turbines according to the case. In healthcare GE can advertise how its products can make precise diagnosis of diseases. In renewable energy GE can advertise how it is providing cleaner energy without harming the environment. By focusing on market penetration and increasing the sales of its current products GE can really increase its market share.

IV. Strategy Implementation & Control

Management is responsible for planning and organizing the strategy and its implementation. Management will give directions to each of the functional areas that will be part of implementing the strategy. Management wants a 3% increase in sales in one year. To achieve that marketing, operations/production, and HR budget will be increased by 3%, 2%, and 2% respectively. Management decided to sell 2,100,000 shares in order to get the money needed to finance the strategy implementation. In 6 months, management wants to see an increase of at least 1.5% on sales, and by the end of the year the goal of increasing sales by 3% should be achieved. The plan that management came up with is that the market that GE will focus on selling its commercial aircraft engine is in the emerging markets of Asia.

GE will focus on the emerging markets of Vietnam, India, and China, as these are the leader countries where aviation markets are growing. Some major airlines in these countries are Air India, Vietnam Airlines, EVA Air (China) and China Airlines. GE will focus on the leading airlines that operate in the aviation market of these three countries and offer them a special deal when they buy Boeing or Airbus airplanes powered by GE engines.

Management is also responsible to give each functional area its role in the implementation of the strategy. Operations/Production is responsible for increasing the production of commercial engines by at least 3% to cover the increase demand that GE will be expecting from these emerging markets. If the shifts that the production department has is not sufficient for the increase in production, then a night shift that running from 9pm-2:30am will be added. The department will also let HR now if new workers are needed, so HR can recruit.

The Finance & Accounting department will be looking at past ratio analysis of marketing expenses to sales how the numbers changed according to sales increase, and come up with a number for a sales increase of 3%. The advertising cost should be increased by the same percentage as the sale. By analyzing the ratio analysis the department will determine why the money should come from selling shares, and the amount of shares that should be sold. The department will also be looking at past financial statements from past deals done by the company and how successful it was and how much it increased sales.

MIS will be storing data, converting into information that can be readable for the departments. MIS will also be protecting the company information about the engine production from hackers, trojan horses, and malwares. Lastly MIS will make sure all the company customers personal information is safe from hackers and malwares.

Marketing is responsible to approach our targets and offer them the deals we will have. Marketing will create a magazine and brochures based on the airplanes engines and will show it to the target market. Marketing will also reach the potential customers from email as a way of direct marketing, and in the email it will have the brochures in it with the different engines.

Legal will be responsible to write and analyze the contrat. After it will explain it to both parties and make sure it is understood by both so the consequences of any breach is known. Legal is also responsible to check that all the information in marketing ads is ethical.

Human Resources is in charge of recruiting, hiring, and training the new employees needed for production. Human Resources budget will be increased by 2%, to be used for the hiring and training of the new employees. The new employees should be hired and trained before production starts.

The Production department for General Electric is very crucial to the plan of market penetration. Production will have a budget increase of 2% to help cover the costs of the new shift salaries, as well as the increase of engine production. Production will create a new shift for part time work. To be considered part time, a person can work up to 29 hours per week. With this in consideration, people on this shift can work 5.8 hours daily Monday- Friday. Each shift will begin at 9:00pm and last until 2:48am Monday- Friday each week of the year. This shift will consist of 10 newly hired employees. This shift will be responsible for product (engine) checks from newly produced engines and any maintenance on engines that are under warranty that have been sent back. They will also establish a timeline for new order processing which will be turned over to the day crew. The day crews will be responsible for new engine production.

Production will record all engine checks nightly. These will be evaluated by Production Management where they will adapt to what they could implement better during the day. Day crews will take daily the new order timeline reports and relay this to their customers. Production will work with Human Resources so it can have its 10 new hires before we began the implementation. In 6 months production should have increased production by at least 1%.

Management Information Systems will have systems in place to store data. MIS will be responsible for converting this data and sending it to various departments such as Management and Marketing. They will ensure all production data is secure from hackers and any type of malware. They will also ensure that General Electric's customer list, order list, order processing information, customer information and internal engine plans are secure from hackers and malware as well. They will also ensure that each department only has access to the screens within their internal company program that they are employed in.

Management Information Systems will run security programs three times daily and will have systems in place to kick out the hackers or viruses as soon as they are detected. MIS will also use their skills to try to hack into the systems to fix any loopholes there might be within the programs. Also, at the end of each month, MIS will ensure that each department has access to their respective screens, with no additions. MIS will also send all data to each department respectively, at the end of each month.

Marketing will create content to produce advertisements in Aviation based magazines such as *Flight Journal* and *Plane & Pilot.* These advertisements will be full page. The graphic will be of an engine, with the words "Powered by GE" in bold font from one side of the page to the other. In the bottom corner, there will be information about the specific engine pictured, as well as what planes this engine is in. There are roughly 21 specific aircraft models that will be featured in these advertisements (GE Aviation). "Powered by GE" will be a campaign used to promote each individual engine produced by General Electric. Each of these advertisements will also be produced into a magazine like brochure for recruiters. These will be handed out for potential customers to have and refer to. Marketing will also use emailing as a form of marketing. Marketing will use enticing subject lines such as "Powered by GE? Yes, it's possible." They will attach the e- form of the "Powered by GE" magazine brochure to this email. The written content of the email will have the benefits of having airplanes powered by GE, how to become a GE powered customer and contact information for any questions. Marketing will also be promoting in their emails and advertisements a 10% discount on the final cost if 5 or more engines are bought. This promotion will last from January- December. They will also offer a six month warranty on these engines. This will include any issues to be fixed, or the need for an engine to be replaced. Each advertisement as well as email will have a promo code for this offer. With a budget increase of 3%, the promotion costs will be covered.

While tracking the effectiveness of print media advertisements can be tricky, it can be done. Marketing will work with Management Information Systems to track the amount of website clicks from the beginning of the campaign to the end. If Marketing does not see a 2%-3% increase in website visits by the end of the first month, they will need to buy more advertisements. They will also be able to track sales from the marketing efforts by the promo code that is specific for the email and print advertisements. These numbers will be reported to Management, which will be useful to see if General Electric is on track for the overall increase in sales. This increase would need to be at least by 0.25. Emails will be sent out using Constant Contact which will help the Marketing team monitor open rates and link click rates. They will hope to see an increase of percentages each week by at least 2%.

The Legal department will write and analyze all contracts between General Electric and their potential new customer. They will ensure that both parties have been explained the terms of the contract. This will help with any breach of the contract between either company. If either company breaches the contract they have the potential to be sued by the other. Legal will also ensure that all Marketing advertisements are ethical and have any legal content needed available.

The Legal team will do routine contract checks to ensure that General Electric as well as the customer company is meeting each term of the contract. This will be done every two weeks. If a customer company has indeed breached a contract they will file a suit against them immediately. They will also check all marketing advertisements within two days of Marketing giving them new content, but this is on the basis of when the new content is produced.

Human Resources will be incharge of all hiring and training of new employees. Production will be adding a new part time shift which will bring 10 new employees to the Production crew. Human Resources budget will increase by 2% to ensure all training needs are assessed. Human Resources will ensure that the job posting has made it to the website. This job posting will be up for two weeks. They will then interview the applicants and hire the 10 that are most qualified for the job. After the hiring process is over, they will ensure that they have proper training. The proper training will include safety, company policies as well as task training. Training will begin on the Monday after they are hired on the previous Friday. Human Resources will also help Marketing with recruiting customers. They will help with the presentation of the engines as well as any questions potential customers may have.

Human Resources will view the amount of applications once daily to ensure that they are on track to having a good candidate pool to interview. If they see that the amount of applicants has not hit 10 by the end of the first week (Friday), they will work with Marketing to push the application with advertisements on social media, such as Facebook. They will ensure their training is effective by taking post proficiency tests. If the new hires have not scored an 80% or higher, they will add an extra day of training on the areas of opportunity.

V. What the company did

General Electric uses a form of retrenchment strategy in 2017. Retrenchment is regrouping through cost and asset reduction to reverse declining sales and profit. The company has been focusing on all divisions and wants their long term focus to be on Aviation, Healthcare and Energy. They have chosen these three due to them being market leading sectors. These three are also positioned for long term growth. While retrenchment is the main strategic plan for the company in 2017, they also have reset, refocus and renew as smaller plans of actions. For reset, the company would like to reduce structure and the manufacturing footprint and improve cash conversion. For refocus, the company would like to expand products and service margins and maximizing services dollars per installed asset. For renew, the company to become more focused, learner and efficient.

In 2017, revenues for renewable energy grew to $10.3 billion from $9.0 billion in 2016. Aviation revenues grew to $27.4 billion from $26.3 billion in 2016. Lastly, healthcare grew to $19.1 billion from $18.3 billion in 2016.

These revenues are due to the strategic plan as well as some other significant developments. These developments include: 1. Leadership and board changes 2. Financial results significantly below expectations and 3. Capital allocation costs and portfolio actions. John Flannery became CEO as well as the leadership team being changed in mid 2017. Also, the company planned to reduce the size of the board of directors. For earnings, cash flows, dividend and buyback, these aspects were below what was projected in December 2016. The company completed a transaction which created Baker Hughes which would become a General Electric company. Lastly, they exceeded their target on cost reduction. They had a goal to make Corporate smaller and more focused which was achieved (General Electric Inc., "2017 Annual Report").

In 2018, General Electric used both product development, liquidation and market development. General Electric planned to produce and improve current products at a safe cost. Market development includes pricing pressures in the energy market, developing secular and cyclical pressures in the power market. Other aspects include keeping up with competitors for the products and services such as oil prices, aircraft retirements and any change in economic conditions. General Electric also wanted to assess the company's liquidity needs. These needs include insurance operations, liabilities and payments, conditions in the financial and credit markets, and strategic actions to pursuit. General Electric briefly states that they are making decisions about investments in new products, but does not elaborate on the subject. Total revenues for General Electric grew from $118,243 in millions in 2017, to $121,615 in millions in 2018 (General Electric Inc., "2018 Annual Report").

VI. Ratio Analysis

Gross Profit Margin Ratio Industry 39.3% Company 14.73%

This ratio was obtained by subtracting sales from cost of goods sold than divided by sales ($122,092-$104,102/$122,092). The gross profit margin of the company is much lower than the industry, which means they are below average when it comes to pay the operating expenses with the money left. According to the case this is due because of the increase in cost of goods sold and operating expenses. This is harmful for the company, especially since the company's revenue was down from the previous by 1.29%. With the cost of goods sold, the revenue needs to increase, not decrease, otherwise the company will continue to be below the industry average. Although 2017 was not a good year, according to the 2018 CAR, the company's revenue is increasing and also the cost of goods sold. This would raise the ratio and improve the total amount of profit for GE ("2018 Corporate Annual Report").

Operating Profit Margin Ratio Industry 7.3% Company -3.21%

This ratio was obtained by dividing EBIT by sales ($-3,922/$122,092). The industry ratio is 7.3% while the company ratio is -3.21% which is much lower than the industry. This means that the company is below average when it comes to using its assets and manage its operations efficiently. According to the case this is because 2017 was a hard year for GE in which thousands of workers were laid off. The tough year for the company was caused due to the revenue dropping by 1% in 2017 from 2016 and also net income dropping quite a bit. Just like the gross profit margin, with the numbers rising in 2018, this margin would also improve. If the company continues to improve and rise, then the margin would come out of the negatives and help the operating efficiency and use of assets better. The EBIT decreasing as much as it did in 2017 would hurt the company in this ratio. Getting the EBIT in the positive in 2018 would be a big help for this company's ratio and also profit.

Net Profit Margin Ratio Industry 3.72% Company 4.74%

This ratio was obtained by dividing net income by sales ($-5,786/$122,092). The industry ratio is 4.62% while the company had a lower ratio which was of -4.74%. This shows that the company cost structure is bad and that it does not have an advantage over its competition since its net profit margin was in the negative. This is because GE is having a bad year in 2017. The GE power is doing bad as the profit margin was down 7%. Oil and gas for GE are operating in the least profitable area. As previously said, the company had a rough year in 2017. The company's net income dropped for 9,494 to -5,786 from 2016 to 2017 which was a -160.94% decrease for GE. With revenues and income declining, GE will continue to have a negative ratio. The plan for 2018 was to increase the revenues and income to improve the cost structure. This will raise the competitive advantage for them and the ratio will become a positive outcome instead of negative.

Return on Assets Ratio Industry 8.8% Company -1.53 %

This ratio was obtained by dividing net income by total assets ($-5,786/$377,945). The industry ratio is 8.8% while the company ratio -1.53%. The company ratio is in the negative this shows that the company has not been using its assets to generate profits efficiently. I think this due to the recent acquisition of divisions GE made. GE bought several firms such as ServiceMax and LM Wind Power. Those two acquisitions cost GE 2.6 billion dollars. As shown in the case, the company continues to buy more assets and with this happening, the return should not be negative. Although it cost GE so much to buy these two companies, it should eventually improve the technology and production for the aviation department. This will eventually raise this margin and GE will start to generate more profit from the acquisitions.

Return on Equity Ratio Industry 26.6% Company - 8.55%

Return on equity ratio is determined by net income (5,786) divided by total stockholders' equity (67,661). In relation to the industry, the company is not doing well. The company should always want a high return on equity. This shows that General Electric does not have a competitive advantage and it's falling to their competitors. This also shows that the company is not invested in the right goal. With this being said, the company is trying to improve the cash management. The case is showing that GE want to cut some of the costs down and become a more efficient company and a better producer. After cutting $1.7 Billion in 2017, they are going to cut another $2 billion in 2018. Reducing the company's inventory and cost would allow GE to focus more on the performance of the company instead of the performance of others. Trying to improve themselves will create a more competitive field and improve income.

Current Ratio Industry 2.2 Company 1.19

Current ratio is determined by current assets (144,994) divided by current liabilities (121,010). This ratio is based off short term. The company is below the industry for this ratio which is not the best case. The company should focus more on getting their liabilities to go down and assets to go up. These liabilities are beneficial in the long run but are not beneficial for a current ratio. General Electric needs to manage the assets and liabilities better and lower the amount of liabilities that they have. This will make this ratio rise and allow them to focus more on their short term obligations.

Quick Ratio Industry 1.1 Company 1.02

Quick ratio is determined by current assets minus inventory (144,994- 21,923) divided by current liabilities (121,010). The company number needs to be at the industry level or higher. I would not say that General Electric is not necessarily too behind. As far as short term investments go, this number is fairly well and means that GE could meet most of them as needed. This ratio could improve due to liabilities and inventories decreasing in 2018. The process of cutting cost and dividends is to increase the company's total outcome. This will eventually allow GE to be even with or higher than the industry average and be ahead of the competition.

Debt to Assets Ratio Industry 5.94 Company 0.821

Debt to assets is determined by total debt (310,284) divided by total assets (377,945). This number is lower than the industry level which is a positive in this ratio. The lower the debt the better off the company is. The company could work on lowering this number even more by buying stock back and evaluating other debts. The company also is aware that they spend too much on acquisitions. General Electric is so focused on Goodwill, when the company should be focusing on other categories to be more profitable. This will go along well with the plans of improving the cost management. Although this number is low enough, spending less on acquisitions will allow GE to lower the debt even more than it already is. Focusing on more debts and paying as much off as possible while being profitable is the plan.

Debt to Equity Ratio Industry 1.3 Company 4.59

Debt to equity is determined by total debt (310,284) divided by total stockholders' equity (67,661). This ratio should be lower than the industry. With this number being so high, it would be a good idea to look at repaying debts and looking to see what could do better with as far as debts. This also means that the company is being financially taken care of by debtors vs. stockholders.

LT Debt to Equity Ratio Industry 0.4 Company 2.80

Long term debt to equity is determined by total debt (310,284) minus current liabilities (121,010) which equals long term debt (189,274) and then divide by total stockholders' equity (67,661). This ratio is showing that a bit of debt was added to the company. This is not good for the company knowing that long-term debt can cause problems due to not knowing what could happen to them in the market. If they do not fix this, they could become financially unstable and hurt the company even more.

Inventory Turnover Ratio Industry 4.2 Company 4.75

Inventory turnover is determined by costs of goods sold (104,102) divided by inventory (21,923). The higher the rate the better with this ratio. This ratio is used to determine how much inventory the company uses compared to how much it is being sold for. The higher the ratio the better off the company is. The ratio is not much higher than that of the industry because of the amount of inventory compared to their cost of goods sold. The company is invested in many different companies and it is producing too much inventory. Being able to cut the amount of inventory that the company has and improve the COGS would improve this ratio even more.

Total Asset Turnover Ratio Industry 1.9 Company 0.323

Total asset turnover is determined by sales (122,092) divided by total assets (377,945). If assets that were unneeded were liquidated, then this number would be higher. This ratio is showing that general electric is not generating enough business compared to the amount of assets they have. Because of the turnout of this ratio, it would help the company a lot if they liquidate some of their assets for cash or cash equivalents. The case is giving a clear example of what exactly general electric is trying to do. If General Electric continues to sell more divisions and buy less, this would allow them to focus more on fewer assets. This would allow general electric to generate more business and a better outcome. Improving sales and lowering costs is the goal and it did improve in 2018.

Fixed Asset Turnover Ratio Industry 16.8 Company 0.524

Fixed asset turnover is determined by sales (122,092) divided by fixed assets (232,951) which is total assets (377,945) minus current assets (144,994). This ratio is extremely low compared to that of the industry. This is not exactly the worst case for the company, they have a lot invested to make sure that the customers are satisfied. Although it would be helpful to know exactly what the fixed assets are contributing too. General Electric is in the positive which is a good outlook for the company. If the company could lower the amount of assets and acquisitions that the company is involved and increase the amount of revenue they bring in, this would raise this number and allow them to focus more on what the assets are actually doing. These assets are coming from the company buying and selling many different divisions. This will eventually raise the revenue earned and selling the divisions would decrease the amount of total assets the company has.

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