Aerojet Rocketdyne Holdings Entry Strategy to Mexico

Aerojet Rocketdyne Holding Inc. is a manufacturer of aerospace and defense products and systems. The company operates two business segments that are Aerospace and Defense and Real Estate. My interest is in the expansion of the aerospace and defense segment operated under the Aerojet Rocketdyne which supplies propulsion systems and armament systems for defense, civil and commercial applications. High human capital development, expansion of the supply chain and development of treaties with other countries such as Canada and respective aeronautical authorities generates attractive volumes leading to better business opportunities in the Mexican aerospace industry. Mexico has trade agreements with over 45 countries making it one of the most open economies globally. The Mexican peso is also linked to the dollar, therefore, minimizing currency risks which offset the cost of cross-border trading.

Strategically, the country occupies a global position being the connection between Latin America to the south and U.S. and Canada to the North. USA, Russia, and Canada are one of the largest markets for aerospace. Mexico is also a member of North American Free Trade Agreement (NAFTA) hence has become increasingly focused in manufacturing due to its duty-free access to U.S. and Canadian aerospace markets. Mexico also has a free trade agreement with the EU. Also, the proximity of Mexico to the United States and the pool of highly skilled technical labor are in favor of the Aerojet Rocketdyne’s expansion to Mexico.

The level of economic stability and political maturity of the country makes it attractive for business investments. Carlos, Robles, the president of the Mexican Federation of the Aerospace Industry (FEMIA) maintains that Mexico remains a prospect for the aerospace industry (*MexicoNow*, 2017). Mexico is the leading trading nation in Latin America with a steady GDP of the $2.406 trillion (2018 CIA WORLD FACTBOOK). Mexico's manufacturing export to the U.S. rose from $5 billion in 2006 to $8 in 2017 and is a project to grow by 15 percent in 2018 (Coffin, 2013). Comparing this with the country’s growth rate of 15 percent, I am optimistic that there is a huge opportunity for growth in the manufacturing industry and more the aerospace industry.

According to the UK Trade and Investment agency, the aerospace industry is the one of the fastest growing industry in Mexico. The huge market gap in the systems that are used in aircraft in Mexico presents a massive opportunity within the value chain of the aerospace market. This presents the perfect opportunity for Aerojet Rocketdyne Holding to expand its aerospace and defense business segment into one of the commercial centers of Mexico and therefore I would confidently recommend the company to expand into Mexican aerospace market.

Higher transportation and other operating costs have eroded the labor advantage in the Mexican manufacturing industry. The bureaucracy in the Mexican authorities and the complex tax regime is also expected to raise the cost of establishing a subsidiary in the country. The U.S.-Mexico trade relations have also tightened since the election of Trump in office. Culture and language differences are great challenges for new and expanding businesses to Mexico. The main language is Spanish but English language is still widely used. Perhaps of great concern, would be how to boost sales without using the internet. Research has shown that Latinos do not respond well to the impersonal means of selling and have a great preference for face-to-face based on their culture. The interpersonal approach is expected to slow business negotiations that in the U.S. Nonetheless, the business opportunities evident in the Mexican market for the aerospace industry offsets the challenges expected. I am optimistic that with extensive research and proper advice from experts familiar with the Mexican market, the company is in position to minimize the effect of the majority of these challenges.

**2.1.0 Demographic Trends in Mexico**

**2.1.1 Population Growth**

Mexico is a country with 1.17% of the world population and is ranked among the top 20 most populated countries in the world. The large population in Mexico can be targeted by the entry strategy of Aerojet Rocketdyne Holdings to ensure there is a high demand for aerospace and defense products. In Mexico, a 1.3% annual change is witnessed in the total population. As a country in North America, GDP growth changes by 2.3% annually ('Contrymeters on Population in Mexico', 2018). Women fertility rate is high, making the total population to rapidly increase every year. With over 131 million population in 2018, Mexico is the best country for Aerojet Rocketdyne Holdings to establish a branch of their industry. Spanish speaking people have settled in most the regions in Mexico and their increased birth rate will increase demand for products sold by Aerojet Rocketdyne Holdings. By 2018, demographics revealed that Mexico has the largest Spanish-speaking population and most of the global companies are targeting the country to expand their business operations.

**2.1.2 Age Structure and Median Age**

The 2018 profile on Mexico demographics indicates that 26.93% of males are aged 0-14 years, 17.54 % of males are between 15-24 years and 40.81% are aged 25-54 years ('Contrymeters on Population in Mexico', 2018). Adult males are less when compared with youths. Therefore, Aerojet Rocketdyne Holdings can target the large population of male youths who can be trained to offer the human resource needs of the company. The age structure of females indicates that the majority of females are between 25-54 years, and may offer a ready market to all defense products of Aerojet Rocketdyne Holdings. In Mexico, the median age is at 27.9 years for both males and females. Therefore, it is recommendable for Aerojet Rocketdyne Holdings to target the new market for its products in Mexico. The company will also benefit median aged youths providing job opportunities to those who qualify.

**2.1.3 Life Expectancy**

In Mexico, life expectancy indicates the surviving years for a newborn child. Both females and males in Mexico can survive until 76.5 years. When a deeper analysis is made to determine the specific life expectancy of each gender, males from birth can have a life expectancy of 73.5 years while females have an expectancy of 79.4 years ('Contrymeters on Population in Mexico', 2018). Since most of the people will live until their mid seventy years, marketing products of Aerojet Rocketdyne Holdings to the Mexican population will help the company make more sales with long lasting customers maintained through customer retention. Over 50, 000 jobs are availed by Aerojet Rocketdyne Holdings to residents of Mexico, and committed employees guide managers of the aerospace industry to adopt corporate social responsibility for benefiting members of nearby society through charitable projects.

**2.1.4 Literacy of Population**

In Mexico, 94.4% of the total adult population can read and write. By end of 2017, over 89 million adults were literate in Mexico. However, approximately five million adults are illiterate but can provide cheap unskilled labor in developing industries. Demographics in Mexico reveal that the literacy rate for adult males population is 95.57%. Females' literacy rate is 93.32% ('Contrymeters on Population in Mexico', 2018). On average, there are 2 million illiterate males and 3.2 million illiterate females. For working class youths in Mexico, males’ literacy rate is 98.76% while females’ literacy rate is 98.81%. The Mexican population between 15-24 years was used to determine the literacy rate among the youths. The high level of literate people in Mexico will help Aerojet Rocketdyne Holdings get financial officers who will meet financing duties effectively.

**2.2.0 Cultural Analysis**

**2.2.1 Language**

In Mexico, widely spoken languages are Spanish and Nahuatl. However, there are 68 indigenous languages spoken by people of Mexican culture. Mexican constitution protects all indigenous languages but Spanish remains as the dominant language in Mexico (Furst, 2012). For Aerojet Rocketdyne Holdings to expand faster in Mexico, it should work with employees using the Spanish language for them to market defense systems of the company to large groups of language speakers. More so, Aerojet Rocketdyne Holdings should respect over 68 language groups in Mexico to ensure local people accept the company to supply defense and aerospace products in many Mexican regions. Having a diverse pool of employees with a wide span of languages would be of great benefit to the company, and even better to obtain bilingual employees to create a median.

**2.2.2 Customs and Norms in Mexico**

Mexican customs and norms are complex. Customs discourage interpersonal conflicts and require and encourage all people of Mexico to be united. Greetings are valued in Mexico and it is customarily punishable for youths to ignore adult greetings. Customs of indigenous people in Mexico are developed as several groups of people engage in traditional celebrations. Societal groups determining Mexican norms include Nahuas, Mayas, Otomis, and Tzotziles (Furst, 2012). All people from Mexico are proud of their native heritage. Norms require Mexican people to have respect for religion and most of the Mexican families adhere to demands of Catholicism. More so, norms require business operations in Mexican societies be stratified. Companies associated with fraud transactions are banned from operating in Mexican societies. Therefore, Aerojet Rocketdyne Holdings change the organizational structure to ensure customs and norms of Mexican culture are included in change strategies of the company. If Aerojet Rocketdyne Holdings is guided by business etiquette, its employees from diversified culture will easily adapt to customs and norms of Mexican people.

**2.2.3 Traditions**

Among the people of Mexico, holiday traditions are respected and Spanish-speaking people highly celebrate the Day of the Dead, valuing Piñatas and Las Posadas days. Mariachi music is respected as a Mexican tradition, and people come up with new specialized instruments and ‘charro' costumes for remembering the music and dance celebrated by indigenous Mexican people. Day of the Dead is based on Catholic teachings and in Mexico, large groups of believers celebrate ancestors who died in the past. Mexican people wear special clothes during the Day of the Dead, organize festive dances and recommend restaurants to prepare special meals during that holiday (Furst, 2012). On Piñatas day, people remember the colonial days when Spanish-speaking people introduced Piñatas to local Mexican people. More so, Las Posadas celebrations are part of traditions requiring Mexican people to prepare special songs at the Christmas Eve. Christmas Carols are part of Las Posadas celebrations. Therefore, Aerojet Rocketdyne Holdings should regulate pricing and distribution procedures during public holidays in Mexico. More so, the company should allow its employees to be free during the Day of the Dead, so that all workers may meet in religious centers to celebrate the lives of their deceased ancestors. By respecting employees and allowing them to take leave for such special holidays and celebrations, employee retention will be at a high.

**2.3.0 Social Institutions in Mexico**

**2.3.1 Hofstede’s dimensions**

Geert Hofstede developed the Hofstede’s cultural dimensions theory. As per Hofstede’s dimensions, cultural values should be analyzed under individualism-collectivism, power distance, uncertainty avoidance and masculinity-femininity dimension (McNett, 2015). Mexican people emphasize the best employee values and follow the best cultural values as needed by Hofstede. Mexico lies under uncertainty avoidance since the culture of Mexican people discourages unknown and ambiguous operations of foreign institutions. The culture requires foreign industries to clearly elaborate their operations and their effects on Mexican people. Therefore, Aerojet Rocketdyne Holdings should create awareness to members of the public on their operations to promote easier acceptance in Mexico.

**2.3.2 Family Structure**

In Mexico, a family is considered a core factor to influence individuals' behavior. Families are large in Mexico and are guided by traditional rules (Schotter, 2016). Men are in charge of Mexican families and protect women. Father is the head of a family and ensures important traditions like the Day of the Dead are respected. Every family has rules guiding celebrations. Therefore, managers of Aerojet Rocketdyne Holdings should understand the family structure of Mexican people to determine how the company's marketing strategies attract members of different families.

**2.3.3 Religious Structure**

Roman Catholic is the largest religious group, followed by Protestants. Traditional believers respect their gods and all religious groups are respected in Mexico (Schotter, 2016). Aerojet Rocketdyne Holdings officials should consult heads of religious groups on how to market their defense and aerospace products in Mexico.

**2.3.4 Labor Organizations**

The Confederation of Mexican workers is the largest labor union in Mexico. Labor unions advocate for rights of workers and ensure political reforms do not undermine business operations of traders (Fairris, 2013). The Institutional Revolutionary Union is another labor organization formed under political influence, to ensure business companies led members of government opposition are not humiliated in the market. Therefore, Aerojet Rocketdyne Holdings should join Confederation of Mexican workers to ensure they are protected from unfair taxations.

**2.4.0 Informal trade barriers**

**2.4.1 Barriers from Social and Cultural Factors**

Differences in language is a social factor acting as a barrier for global companies. Cultural factors like differences in religious attitudes and values are other forms of informal trade barriers (Huchebourdon & Cheptea, 2011). It is advisable for Aerojet Rocketdyne Holdings to employ some Spanish employees who will understand several languages spoken in Mexico to help in the marketing of aerospace products.

**2.4.2 Communication styles**

Some informal communication styles like filtering and selective perception cause a barrier to the effective spread of business information. Filtering is a distortion of information due to personal reactions. Advertisers may fail to deliver correct information concerning business products when their reactions result in giving biased business information. Selective perception is an informal communication style whereby people spread information that only meets their own needs (Huchebourdon & Cheptea, 2011). Therefore, individuals marketing products of Aerojet Rocketdyne Holdings should avoid informal communication styles like filtering and selective perception to minimize communication barriers.

**2.4.3 Negotiation Tactics**

When negotiation tactics fail to achieve mutual benefit to a business company, they pose barriers. Manipulative tactics when used by an organization trick other business rivals into conceding less profitable business practices (Huchebourdon & Cheptea, 2011). Employees of Aerojet Rocketdyne Holdings should develop collaborative negotiation tactics and avoid manipulative tactics from its business rivals, especially in the aerospace sector.

**2.4.4 Marketing Concerns**

Marketing has several concerns that business managers should be aware. For instance, individuals involved in marketing may confuse between business strategy and tactics. Business tactics support change strategies and such concepts are of the essence in marketing (Huchebourdon & Cheptea, 2011). Confusing a customer with biased information about products is another marketing concern to be addressed by global business managers, including the manager of Aerojet Rocketdyne Holdings.

**2.4.5 Ethical Concerns**

Ethical concerns require employment practices to be fair and all employees should receive fair payments after they work. Working conditions for employees should be maintained and no workers should be subjected to poorly ventilated operating rooms. Therefore, Aerojet Rocketdyne Holdings should pay its employees fairly as a way of adhering to ethical demands. More so, human rights should be respected in a workplace environment. Workplace right includes the right to monitor business emails, receive telephone calls and access the internet. Violations of such acts may result in fines from governmental authorities. Also, ethical concerns require business practices to involve members of the community, be guided by responsible leaders and praise positive behavior among workers (Huchebourdon & Cheptea, 2011). Management of Aerojet Rocketdyne Holdings should review all ethical concerns as they prepare to expand the sale of aerospace and defense products in Mexico.

**3.0 International Strategy and Organizational Structure**

**3.1 International Strategy**

**3.1.1 International Presence**

Aerojet Rocketdyne Holdings, while headquartered in the United States, has ventured into international markets. This company is a world recognized aerospace and defense leader that attempts to cater to both domestic and international markets. Essentially, this company provides its solutions not only in the United States but also in Europe. The company has made entry into the Europe market through a subsidiary, European Space Propulsion (ESP), a GenCorp (NYSE: GY) Company. In 2013, the European Space Propulsion signed a contract with the European Astrotech Limited to combine resources and support the growing market of the satellite in Europe (Aerojet Rocketdyne Holdings, 2018). Ideally, the team uses the company’s resources and capabilities to extend a global reach and improve the business fluctuation. In 2015, the European Space Propulsion (ESP) also contracted with Airbus Space and Defense and Thales Alenia Space for the development of a new ThermoThrottle.

**3.1.2 International Strategy**

Foreign market entry modes encompass the strategies that can be used by an organization when making entry to a new international market. Essentially, a company to find a route and establish a presence in a foreign market can use various modes. The selection of the most suitable entry mode is a crucial step for any organization seeking to undertake foreign expansion (De Villa, 2015). Among the factors that determine the choice of an entry mode to a new international market include market size, the degree in which the product is required to adapt, marketing and transportation costs, tariffs and other legal set-ups.

The most suitable international strategy of Aerojet Rocketdyne Holdings as it makes entry into the Mexican market is joint ventures. The international joint ventures is an effective way of making a quick entry into a foreign market. Ideally, a joint venture is defined as an enterprise or corporation that is formed by one or two companies through a contractual agreement with regard to the governing terms contained in the contract (De Villa, 2015). With the contractual agreement, an enterprise is formed in which the contracting parties share ownership and control over the property rights and operations. The joint ventures, unlike the non-joint venture, have broader purpose and scope and have a more extensive form of participation. Moreover, both engaging firms share management, whereas only one firm takes responsibility. Upon formation of the joint venture, independent directors are elected to direct and control the operations.

Joint ventures enhance the access of the company to new markets and distribution networks. Essentially, starting a joint venture presents an opportunity to gain new insights and expertise that can improve the performance of the contracting parties. With a longer duration, this strategy will allow the Aerojet Rocketdyne Holdings and a contracting party to gain an understanding of the market foundations. In addition, a joint venture will allow the company to share risks and costs with the contracting partner. This strategy will also create a platform where the aerospace company can share in-depth knowledge with a foreign partner with the know-how in technology and the processes involved in the business. Nevertheless, this mode of foreign market entry presents access to greater resources including highly talented and competent staff, technology and finance (Khan, 2015). As such, the joint venture can achieve the highest return on investments. Such returns would improve the financial performance of the two contracting companies.

The Mexican Aerospace industry, as discussed earlier, is a highly growing market that has made a trade agreement with over 45 countries. As such, Aerojet Rocketdyne Holdings should take advantage of this foundation to make entry with the use of a joint venture. In this case, the company should select the most appropriate partner, precisely one based in Mexico in the formation of a joint venture. Upon selection of the partnering enterprise, the company should undertake a feasibility study of the reliability and expected performance of the contractual agreement.

**3.2 Organization structure**

**3.2.1 Organization Culture**

Aerojet Rocketdyne Holdings has established a culture of working on projects that, while they can be challenging, they focus on achieving the companies mission and vision. Every individual contribution during the projects is stored for future reference. Moreover, the company has fostered a friendly and family atmosphere along with the excitement of developing innovative aerospace and defense technological projects (Aerojet Rocketdyne Holdings, 2018). As such, the company has engineered a culture where the employees are highly motivated and enjoy long tenures and technological expertise. The employees are highly engaged in the company’s processes and various decision-making events. In addition to improving job satisfaction, this culture has contributed to increased employee productivity. The company has also created a culture where the employees and the management enjoy similar level of mutual respect.

Aerojet Rocketdyne Holdings also believes in ongoing career development. As such, the company offers both internal and external training, educational benefits and any other essential resources that can develop and expand the skills and expertise of its employees. Nevertheless, the company has developed a culture of supporting the growth and personal development of its employees. While the company has a responsibility of achieving its business goals, it is also highly invested in the welfare of the employees. Aerojet Rocketdyne Holdings has also established a robust ethical culture for its workplace. The moral foundation of the company begins with its business process and extend to how it treats its employee with fairness and equality irrespective of their backgrounds. Aerojet Rocketdyne Holdings believes that its primary reason and key to success is its focus on quality, performance, safety, cost and schedule management.

**3.2.2 Current Organization Structure**

The current organization design in Aerojet Rocketdyne Holdings is the functional structure. Ideally, this structure entails a Chief Executive Officer (CEO), Eileen Drake, at the top. The Chairman of the Board, Warren Lichtenstein. Moreover, the company’s board of directors encompass five members including Thomas Corcoran, and Henderson, Lance Lord, Merrill McPeak, James Perry and Martin Turchin. Aerojet Rocketdyne Holdings organization structure also includes the Financial Officer (CFO), Paul Landstrom and Chief Operating Officer (COO), Mark Tucker. The company structure also involves the Strategy and Business development manager, Business Relations Manager, Communications Manager, Legal & Secretary professional and Assistant Legal officer.

**3.2.3 Supply and Distribution Channels**

Supply chain management is an essential phenomenon that allows an organization to source their materials to create a service or product and deliver that product to the targeted consumers. The main components of supply chain management include planning, sourcing, making, delivering, returning and enabling. Supply and distribution channels allow an organization to optimize its operations in both speed and efficiency. Speed is an essential component as most customers value fast delivery and distribution of products and services in an organization. Efficiency is a crucial concept in the achievement of proper distribution channels. With the establishment of reliable supply and distribution channels, an organization can achieve a lasting competitive advantage.

Aerojet Rocketdyne Holdings supply chain management is crucial to its delivery of solutions. Primarily, the company delivers high-quality products and services safely, on time and at affordable prices. Currently, Aerojet Rocketdyne Holdings has contracted suppliers who engage in the supply and distribution of its products across the United States and Europe. Moreover, the company’s contracted common carriers deliver its products to all the facilities identified on Purchase orders. The company values the contributions of its current supply partners and have worked together to establish a strong, beneficial and secure business relationships.

**3.2.4 Recommended Organization structure**

The most appropriate organizational structure that can be adopted by the company is the global matrix structure. This organization design is similar to the domestic matrix structure, but with increased complexities to ensures that both functional and division sections in the organization are accommodated (Daft, 2010). This organization structure involves the vertical, horizontal and diagonal flow of activities and processes for the organization. With the adoption of this structure, the subsidiary firms can report to more than one group.

Aerojet Rocketdyne Holdings has already made a presence in the European market with a contracting subsidiary. As the company strives to make entry into the Mexican market, the adoption of the global matrix organization design is essential. While the joint venture can be an independent firm, it has a responsibility of reporting to its mother companies on the various performance progress in the new market. As such, the joint venture, inclusive of the European subsidiary company, can be part of the organization with the adoption of the global matrix organization structure.

One of the advantages that are presented by this organization structure is its flexibility. This design allows for better allocation of processes among the various departments that can be created in the organization. Moreover, this structure has better coordination and communication. A matrix improves the foundation of communication not only from the top level but also across the departments and divisions. The global matrix structure presents a domain that allows the employees to communicate with the upper management and the between the departments. This structure is also useful in boosting team building and collaboration among the various divisions in the organization. The divisions improves the degree of specialization hence motivating the company employees to collaborate in the completion of the defense projects.

**3.3 Summary**

Foreign market entry is a crucial process that can be undertaken by any organization. As an organization seeks to venture into a new international market, some factors such as market size, taxing policies, political stability and economic performance should be considered. Making a successful entry does not only depend on the choice of a target market, but also on the most reliable market entry mode. As Aerojet Rocketdyne Holdings seeks to venture into the Mexican Aerospace industry, it can employ a joint venture as a suitable entry mode. Ideally, Aerojet Rocketdyne Holdings is required to select a contracting partner that can ensure success in the new market. Moreover, the company should adopt a global design matrix to establish a reliable structure that can engineer the development of the defense projects and other internal operational activities.

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