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A Strategic Analysis of Rio Tinto

1.0 Executive Summary

Rio Tinto is a global mining group that focuses on mining and processing the Earth's resources (including aluminum, copper, diamonds and minerals) (Rio Tinto, Annual Report, 2014). The company's mission is to be "admired and respected for delivering superior value, as the industry's most trusted partner" (Rio Tinto, Annual Report, 2014, p. 2) and its operations are based on several core values such as respect, teamwork, integrity and accountability that enables them to achieve a low cost value added competitive advantage (Collis & Ruskstad, 2008). The organisation receives most of its revenues from China (38%), followed by Japan (15.4%), the United States (12.9%), Canada (2.8%), Australia (2.2%) (MarketLine Company Profile, 2016). Because of space limitations, this work will focus the analysis on the company's operations in China considering it is the largest market for the firm. China's operations started in the 1970s when Rio Tinto became the first company to supply iron ore, and decades later the company now has six representative offices around Shanghai, Beijing and five wholly-owned enterprises around the country (Albanese, 2010).

This report will present an internal and external analysis of Rio Tinto's operations in China, using many of the modules that were introduced during the course (PEST, Five Forces, SWOT, etc), while also presenting several recommendations following application of a TOWS and Ansoff matrix. The overall analysis shows that although growth in China is slowing, urbanization and development is still a key feature of the economy, and as the industry moves into the consumer segment, Rio Tinto is uniquely positioned to capitalize on its cost advantages as well as customer focus to penetrate the market in eliminate some of the weaknesses of the routes that it faces currently.

2.0 Strategic Analysis

2.1 External Analysis

2.1.1 PEST

PEST

China ranks number 84 according to the World Banks *Doing Business* (2016), a position that has improved in recent years as a result of liberalization policies which suggest it is easier than in previous years to do business. But corruption and still remains a concern (Transparency International, 2016). In fact, Rio Tinto itself went through this as the company is Chinese workers were accused of accepting bribes of up for those €180,000 (Waldmeir & MacNamara, 2010), and there is also the potential for resource nationalism (Ernst & Young, 2015), which may harm the ability of foreign companies to offer raw materials to companies operating there (as China may demonstrate favouritism towards state owned enterprises or organisations with state owned connections)

Economic

Following the open up and reform policy, China has experienced impressive growth (Fidrmuc, et al, 2013), which has been the primary source of Rio Tinto's revenues. However, the nature of growth is changing (moving from a perceptual development to growth in the consumer and services sector) and growth overall is decreasing

(Jacques, 2015), from previous years, from 7% to about 4 to 5% on average through 2030 (Neems, 2015). The slowdown in the market has negatively influenced not only Rio Tinto market share performance (declining 2 per cent to \$48.24) but also competitors (Powell, 2015). However, the trends such as urbanisation (where by 2025 China will have built ten cities the size of New York) (Albanese, 2010) (generating more than 220 million new urban residents) and the development of urban sprawls in tier 3 and 4 regions is thought to create a higher demands for minerals like steel (, especially as it will need minerals that can be provided to replace old rules, machinery, aging buildings, railways and so on) (Saunders, 2015).

Social

The main social trends relevant is the growing environmental awareness and the general trend towards embracing sustainability (Walsh, 2015). This is especially important for a country like China, which is home to some of the world's most polluted cities (Hite & Seitz, 2016) as a result of the rapid industrialization of the country has experienced since the early 1970s. Growing environmental awareness and the need to embrace sustainability is something that also is relevant to the mining industry (Reed, 2014), so that would mean embracing more energy efficient, less polluting facilities and reducing overall impact on the environment.

Technological

China may be a developing country, but it is increasing its investments in research and technology (already consuming almost 2% of its overall GDP), likely the takeover of the European Union and the United States in research and development by the end of the decade (Kigotho, 2014). This is a part of an overall strategy to try to increase innovation and science and technology is becoming more a part of the country's core development projects (Wu, 2015). This is very important to ensure that Rio Tinto has access to the people at the necessary knowledge, skills and background that is required for engineering and modern day mining (Jacques, 2015)

2.1.2 Five Forces

Buyer Power

There are potentially a number of buyers in the commercial sector would be interested in procuring the raw materials Rio Tinto provides for development purposes, including construction companies of various types (buildings, bridges, roads and vehicles, etc) (Kehoe, 2015). The amount of buyers in the market decreases the power that they have over Rio Tinto to set costs. Buyer power is decreased by the switching costs (Porter, 2008) associated with moving to a competitor, where new agreements, prices and other complex information to be agreed upon. Switching costs are also likely decreased by the fact that Rio Tinto is one of the lower cost producers in the world (Kehoe, 2015).

Supplier Power

Rio Tinto relies on suppliers for a variety of provisions, including custom trucks to meet the company's needs (fuel consumption, a unique engine cooling system) (Rio Tinto Procurement, 2016), suppliers who help to recycle waste and more (Supplier Stories, 2015) and therefore supplier power may be increased by the way suppliers' able to help contribute to a company's competitive advantage. Supplier power is decreased somewhat, however, by the amount of bargaining power the company wields (the volume of orders for trucks, for instance), as

well as mediated by its expectations, where the firm requires suppliers to work in accordance with their core values, i.e. accountability, respect and teamwork (Rio Tinto Procurement, Our Expectations, 2016) and every supplier goes to a qualification process to meet standards and health, safety, and financial complexity, as well as among other things ethical and anticorruption, implicating supplier relationship strategies to reduce their power (Cox, 2004).

Threat of New Entrants

The threat of new entrants is minimized by the amount of capital that is required to enter into the mining industry, and a significant amount of knowledge and expertise is needed for engineering (Datamonitor's Metals and Mining, 2016). This, in addition to the amount of expenditures needed to build a brand name, limits the threat considerably.

Substitutes

The mining industry, according to Ernst & Young (2015), is facing a heightened threat of substitution, where aluminum, other materials like plastics are being replaced by copper. There are also potential advances in technology that may increase the possible source of substitutes. So this is something that companies in the industry should be aware of.

Rivalry

Rivalry in the industry would likely be assessed as strong considering that there are several competitors including Anglo American PLC, Vale and BHP Billiton (Hoovers, 2016) and the competitors based on strategic grouping analysis as well as overall industry lifecycle can be found in appendix 1 and appendix 2 respectively.

2.2 Internal Analysis

2.2.1 SWOT

Strengths

Rio Tinto maintains a leading position in the aluminium and copper industry, being a world supplier for these special minerals various domestic and export markets (Market Line, 2015). Rio Tinto has opened wholly owned subsidiaries and engaged in joint ventures in various markets across the world in order to expand its leadership, while investing in expansion projects for the same purpose. Apart from this, the company clearly has capabilities in research and development (Rio Tinto being the creator of AP Technology, the aluminum industry's cleanest technology), the AP 60 smelting technology), enabling the company's plans to maintain its equipment over the last three decades (Rio Tinto, Annual Report, 2014). These initiatives enable improvements in process and operational performance. As well, because the company operates through six business segments, aluminium, copper, energy, iron ore, diamonds and minerals in operation, it is able to diversify business risks (Marketline, 2015).

Weaknesses

Rio Tinto does have a considerable debt, at the end of 2014, about \$12 billion (Market Line, 2015). This will limit the ability to finance its operations or business, and may also limit capital expenditure for investments in greenfield or brownfield projects (Market Line, 2015). Its image also may be harmed because of a poor track record in operational states, where injury frequency rate them off by this are likely higher than the company would expect

considering the goal is zero harm (Rio Tinto, Annual Report, 2014). In fact, the organisation has been the target of industrial union, which recently published a pamphlet (Industrial Union, 2012) that contradicts the companies claim made about the environment, work safety, governance and economy.

Opportunities'

Opportunities exist mostly as an emerging economies (China and India) as a result urbanization and industrialization, factors which are likely to increase aluminium demand (expected to grow some 6% through 2020) (Marketline, 2015). The market for diamonds is also expected to improve as a result of urbanisation and standard of living, likely to improve (where in China are expected to spend about 50% of global diamond consumption by 2025) (Marketline, 2015). Rio Tinto has initiated projects to fuel growth in these respective minerals, including the Bunder diamond project and the Kitimat smelter project for aluminium (Rio Tinto Annual Report, 2015). A number of joint ventures and partnerships also been used as a means in which to improve on growth and increase the strength of its market position.

Threats

The organisation is extremely affected by a macro environment as commodity prices and demand for its products are cyclical and influenced largely by economic growth or declines (Rio Tinto, Annual Report, 2015). Also, as the company is exposed to various health, safety, environmental laws and regulations, they must adhere to these which may increase costs and litigation, which can have a harmful effect on Rio Tinto's earnings and cash flows (Market Line, 2015). In addition, the operations are vulnerable to national disasters and operational failures and, according to the latest report, a wide variety of macroeconomic pressures, including lower metal prices, cost inflation, high levels of capital expenditure, these limitations on growth prospects and many companies are now facing the challenge of how to try and allocate capital (Ernst & Young, 2013).

2.2.2 Resource Based Analysis

Valuable

The company's competitive advantage lay mostly within its cost structure, and it is able to obtain this advantage because of a variety of resources that it possesses (Wernerfelt, 1984; Harding, 2015). For instance, the majority of Rio Tinto's iron ore mining operations, a major mineral that is important to China, is located in western Australia whereas competitors like the Vale are concentrated in Brazil (Trefis, 2015). Because Australia is geographically closer to China, the costs are lower (Vale iron ore shipments are around \$22 whereas Rio Tinto costs are about \$10) is also much quicker, nine days instead of six weeks (Trefis, 2015). Cost reduction is also able to be achieved because of its capacity, able to reach 360,000,000 tons, which lowers the cost of iron or a time every year (Rio Tinto producing at \$16, competitor BHP producing at \$19) (Russell, 2015), due to the assets it has¹. Thus, these

¹ These include the "Pilbara iron ore business, to our Queensland bauxite ore reserves, hydro-powered aluminium smelters, our global suite of copper mines and sector-leading energy, diamonds and minerals assets" (Rio Tinto Strategy, 2015, p. 1)

resources can be considered valuable because they help to increase perceived customer value and differentiate the product.

However, it is also able to take advantage of the knowledge the employees have of its customer base and leverage that into its operations to become customer led in its operations and marketing (Rio Tinto About Us, 2016). For instance, in order to meet customer needs of creating additional supply with reduced my time between order and delivery, the firm was willing and able to listen to customer requests, of which led to the establishment of a new destination hub with a warehouse in facilities located in China that would enable them shipped in excess of 25,000 tons of minerals (Harrington, 2016). This is resulted in a number of benefits such as reducing delays, improving product quality, getting inventory closer to the customer so as to the availability, reliability and timeliness (Harrington, 2016), providing them with a competitive advantage over others in the industry, suggesting that they had relied on the knowledge and insight of customers and has established communications in such a way that enables marketing capabilities (Day, 1994) to develop.

Rare

Firms accessing these resources (strategic geographic, leveraging knowledge and communication) is unlikely because they are rare. For instance, it would cost a significant amount for competitors to increase production capacity in a way that Rio Tinto does. Also, having access to the geographical location of Australia and its importance in proximity to China is also something that is rare.

Imitable

While it is theoretically possibly marketing capabilities or resources that will enable customers customer responsiveness, it is not likely that competitors will be able to imitate the production and supply chain advantages that Rio Tinto has. So this suggests that it is not a temporary competitive advantage Rio Tinto is developing. It also seems that the resources and capabilities are based on the company's culture and interpersonal relationships, meaning there is social complexity (Aragon-Correa & Sharma, 2003) and the resources they have been developed because of historical events, which makes it all so costly to imitate.

Organised to Create Value

Resources are also clearly organised in a way that helps them to capture and create value, as the example with knowledge and communication demonstrated for marketing. To develop its asset portfolio for production capacity, it also relies on a strategic framework that assesses issues tracked in this, competitive advantage so as to enable the best returns (Rio Tinto Straetgy, 2015). This shows that the firm is arranging a operational strategy in a way that enables the potential of its valuable, rare and costly to imitate resources that turns them into capabilities (Helfat & Peteraf, 2003), thereby enabling them to achieve sustainable competitive advantage of low cost but added value, indicating a hybrid approach according to the strategic clock model.

3.0 Strategic Recommendations

Here, some of the recommendations are made based on the Ansoff matrix and TOWS matrix.

3.1 TOWS Matrix

S-O Strategy

Rio Tinto should capitalise on partnerships and relationships (particularly strategic alliances rather than just organic development) (Thompson & Martin, 2005), given this is a strength as SWOT showed, by strategically assessing the one that will help to expand the company's market share. Mergers and acquisitions do not seem like something the company has pursued in the past and so that should be approached, if at all, very cautiously since it requires knowledge and experience (Hayward, 2002). As well, the company should more aggressively apply its marketing capabilities (Morgan & Vorhies, 2009) to find a way to get its minerals into areas products, i.e. iron ore can be transferred and deal for emerging market; metals and minerals may find their way into the screens of smart phones or tablet computers (Harrington, 2015). The point is to adapt to the environment (Chinese economy) because the minerals Rio Tinto unearths may not just be used to build infrastructure of China but can also be used into the consumer segment, and an analysis of the PEST showed that China is transferring into an industrial to a consumer and services economy.

S-T Strategy

To reduce exposure to the macro environment (a threat SWOT showed), Rio Tinto needs to increase a processes for risk identification, assessment and management (Jarvie-Eggart, 2015). Also, as there was the possibility of perhaps 'resource nationalism' (identified through PEST), this may limit the opportunities for growth in the country, this might be mediated by a working on establishing close relationships with the government and that could be fostered by developing guanxi (Park & Lou, 2001).

W-O Strategy

Rio Tinto needs to expand its operations in China and in order to overcome of the capital weaknesses (namely, debt) that were documented in the SWOT analysis. This might involve establishing new distribution, facilities and transportation are asset, especially in tier 3 and 4 cities considering these will be some of the areas in need of development and infrastructure in the years to come (Dobbs, et al, 2012).

W-T Strategy

Rio Tinto should assess the social and environmental impacts of operations and incorporating technology and tools that will enable them to contribute to the development of China in a way that is sustainable and reduce the impact on the health of Chinese people, technology being also one of the strengths that they can capitalise on. This will also help them to keep a good brand image and perception in the eyes of the Chinese government and having stable relations with the government will be crucial to the company's long-term sustainability in the region (Bu & Roy, 2015).

3.2 Ansoff Matrix

Ansoff's matrix (Johnson, et al, 2010) suggests that firms the new growth strategy and market development, market penetration, product development and diversification. Market penetration should definitely be pursued, as

those recommended in (W-O Strategy) in order to reach out to developing cities in China. As well, product development should also be pursued as implicated in the W-T Strategy by coming up with new, sustainable products that may be created through the company's research and development as this may help to come up with new ideas and the way that the minerals may be used for consumer solutions as well as infrastructural development. Diversification does not seem to be very relevant to the company because it would deviate from the strategic objectives and mission of the company.

3.3 Suitability, Feasibility and Acceptability

Suitability, referring to whether the strategy addresses the strategic position of the organization (Johnson, et al, 2010), is addressed because the recommendations are very aligned with the increased value of products, i.e. focusing on the sustainability of products while increasing the value proposition delivered to Rio Tinto's customers. Acceptability, which is concerned with the performance outcomes (Johnson, et al, 2010), and should meet the expectations of strikes will first be good the recommendations offered here should result in a return on investment and increase the company's revenues and profits. Finally, feasibility (Johnson, et al, 2010), which is concerned whether the strategy could work in practice, is also possible because the company clearly has the marketing capabilities to deliver an offering based on the unique needs of customers and can do so in a way that is at a lower cost than competitors given the unique resources that they have. Therefore, the recommendations meet the criteria of suitability, feasibility and accessibility.

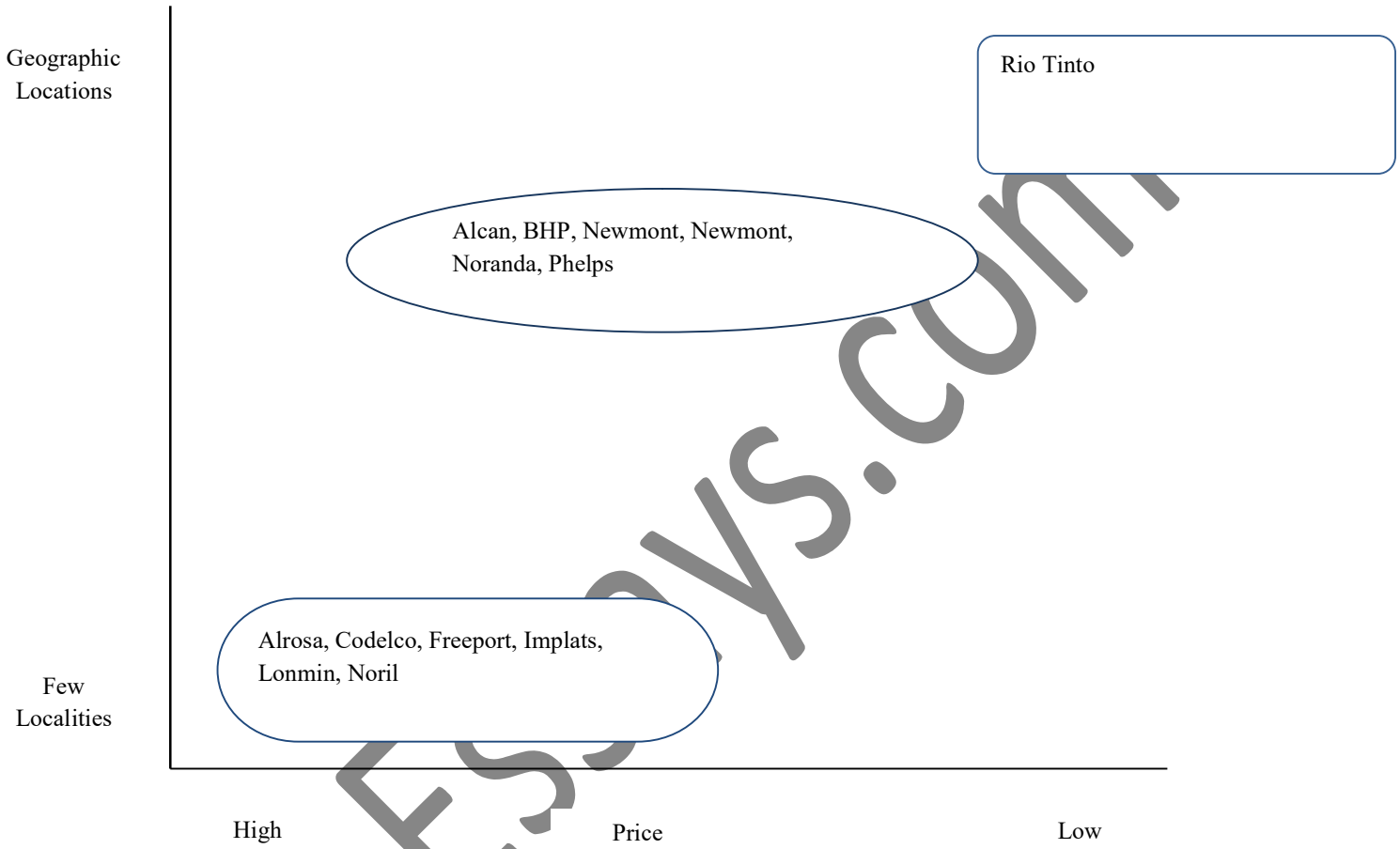
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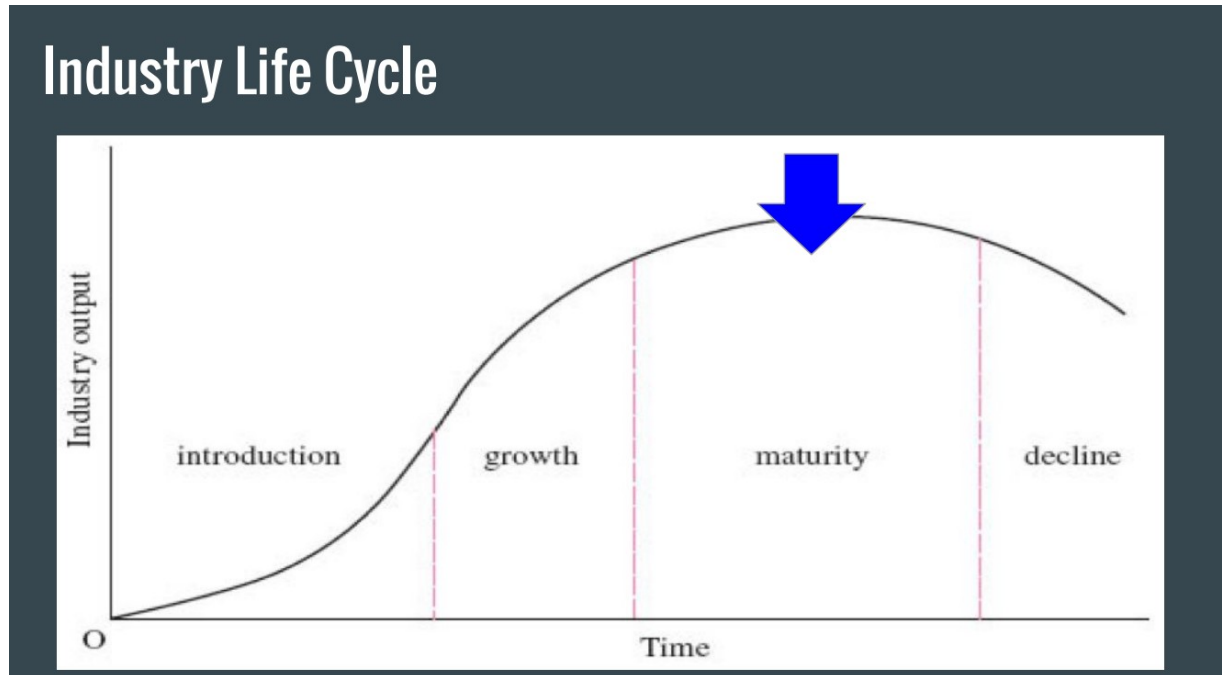
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Appendix 1: Strategic Group Analysis



Source: Rio Tinto, Annual Report, 2014;
Shapiro, et al, 2007

Appendix 2 Industry Life Cycle (Mining)



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