Acquisition Proposal

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MBA 620: Measuring Success in an Organization

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Agenda

- **Overview**
  - **Situational Analysis of TransGlobal Airlines**
  - **Acquisition Rationale**
  - **Proposed Acquisitions**

- **Analysis**
  - **Analysis of Company A**
  - **Analysis of Company B**

- **Proposal**
  - **Recommendation**
  - **Rationale**
  - **Assumptions**
    - **Worst-case/Best-case scenario**

Internal Analysis

- Established in 1951
- Global airliner with dominant U.S. presence
- 40,000 employees
- Headquartered in Miami, Florida
- 18% global market share (2nd , American is 1st)
- 18.3% U.S. market share (2nd, Southwest is 1st)
- 27% new customer grown annually

Adventure   Enthusiasm   Discovery

External Analysis

| P	**Political** Covid-19 pandemic might affect airline travel Strict hygiene and safety standards requirements Possible surges
E	**Economic** Inflation Supply chain disruption
S	**Social** Sociological factors about Covid-19 Shifts from onsite to online work decreases necessity of business travels
T	**Technological** Advances reshaping ways consumers make choices More customizable, streamlined, efficient ways to buy tickets out there
L	**Legal** Minimum wage, benefits, workload
E	**Environmental** Climate change and increasing fuel cost

Adventure   Enthusiasm   Discovery
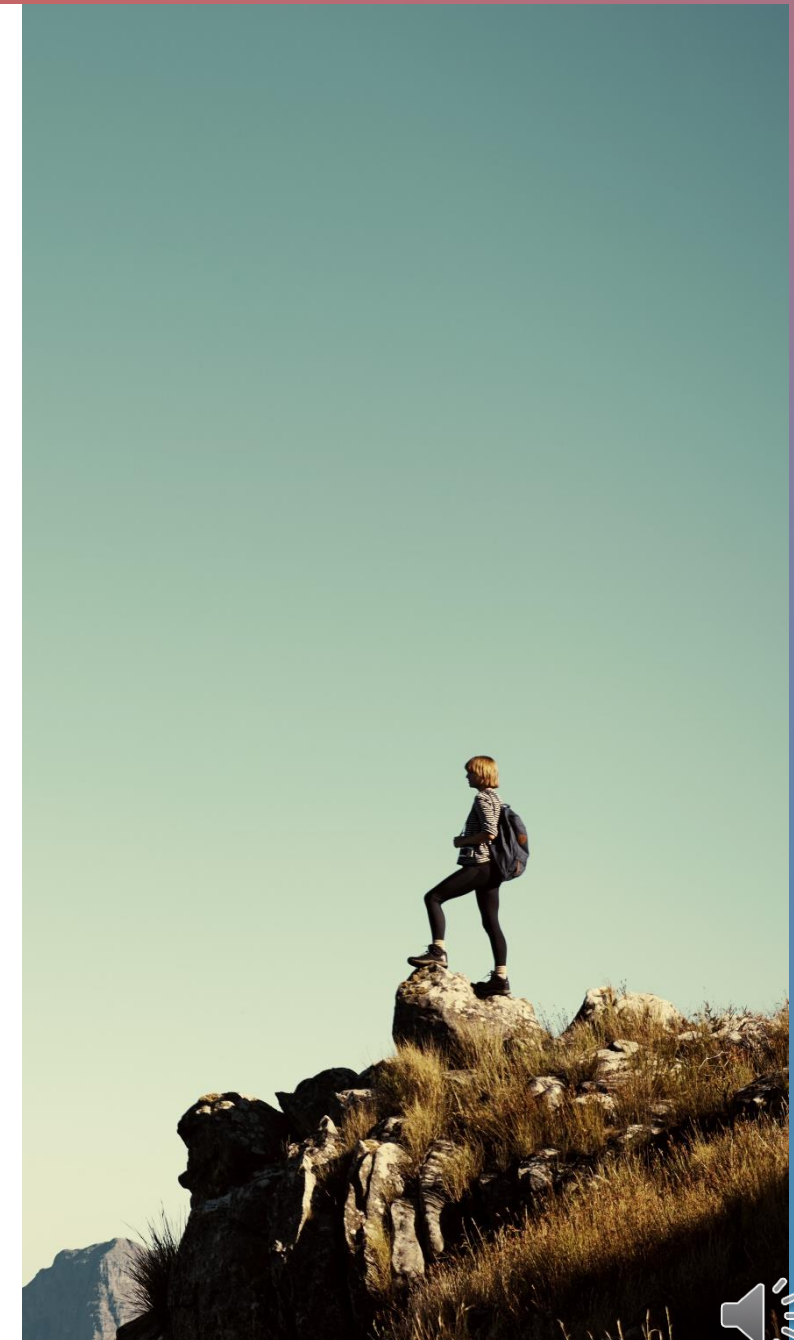
SES Goals

▶ Safely re-introduce and promote the MAX 737 aircraft1 .

▶ Expand the fleet of regional aircraft with capacities below 70.

▶ Upgrade the reservation and ticketing experience, including smartphone apps and integration with apps associated with lodging, ground transportation, and attractions.

▶ Achieve top-10 status in the 2030 World's Best Workplaces rankings (currently not ranked in top 100).

▶ Reach net-zero carbon footprint by 2075.

▶ Accelerate adoption of fuel-efficient aircraft and alternative fuels.

▶ Expand use of carbon offset measures.

▶ Improve our Airlines.com safety rating from 5 stars to 7 stars.

▶ Build brand awareness and customer loyalty.

▶ Address workplace inequities and build an inclusive culture.

▶ Train every employee in the basics of FAA's SAS (Safety Assurance System) via 2-hour web based training.
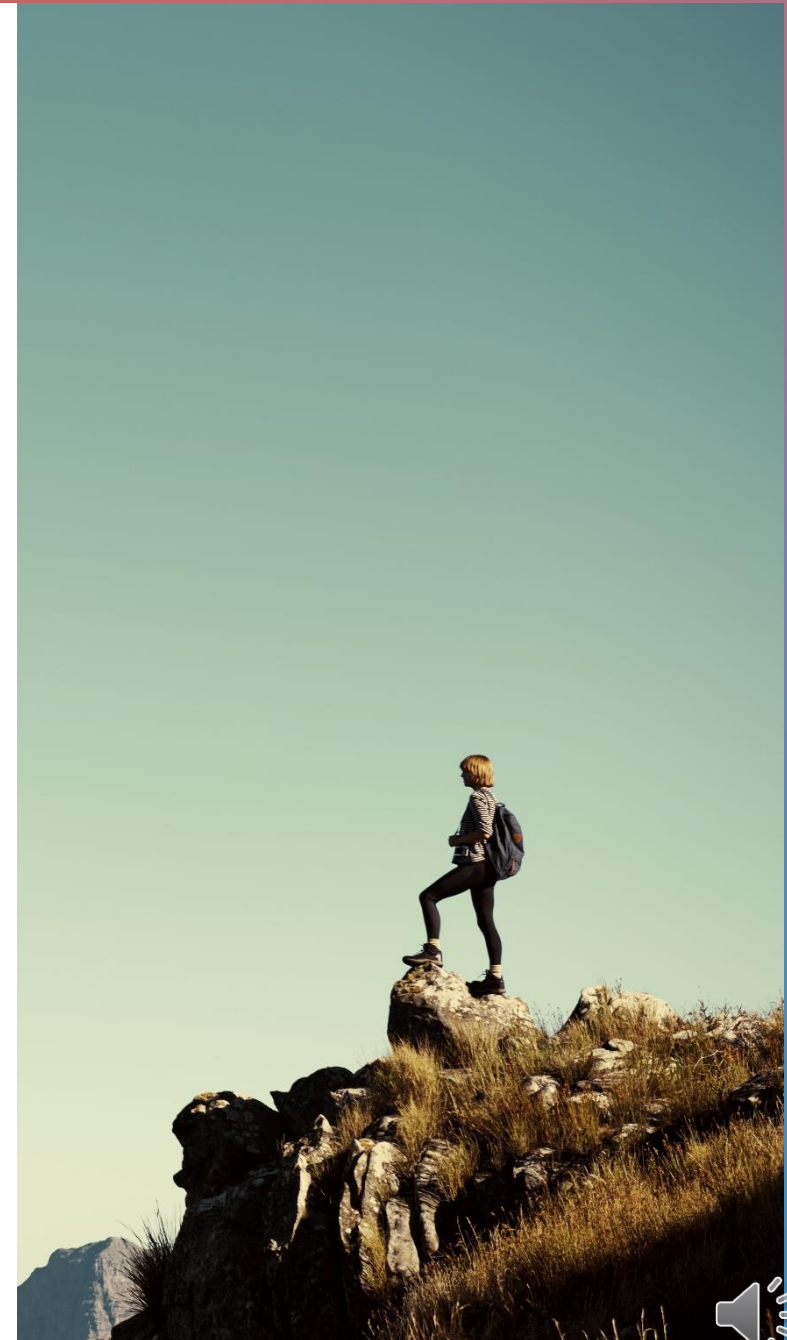
Acquisition Rationale

Increase — Increase presence in chartered flights for luxury vacations using light aircrafts (60 passengers or less)

Increase — Increase presence in Florida/Caribbean Market
- Company A currently has 18.9% market share of Caribbean destination traveling

Expand — Expand fleet of aircraft with below 70 capacities

Achieve — Achieve top 10 ranking of best places to work

Adventure   Enthusiasm   Discovery

Proposed Acquisitions

	Company A	Company B
LOCATION	Miami, FL	Orlando, FL
SIZE	165 employees	98 employees
AGE	1981	1988
MARKET SEGMENT	Luxury tourist and business class	Tourists and business
CUSTOMER SEGMENT	Vacationers, tourists, Caribbean business government clients	Vacationers, tourists, business travelers
MARKET	Caribbean Islands (15 destinations)	Florida and nearby destinations (8 designations)

Major competitors	Delta Connection American Eagle Bahamas Charter Airlines Cape Air Seaborne Airlines	Delta Connection American Eagle Sun Country Frontier
Company leadership	Privately held	Privately held
Market Status	4th Caribbean destination market share at 18.9% • 66% return customers • 74% average seat occupancy • 22% new customer growth annually	• 40% return customers • 62% average seat occupancy

Financial	Annual revenues: $28–29 million	Annual revenues: $26-27 million
	• Annual growth YoY: 2.5–2.9%	• Annual growth YoY: 3%
	• Gross profit margin: 45%	• Gross profit margin: 33%
	• Net profit margin: 8%	• Net profit margin: 0.2%
	• Aircraft in fleet: 55	• Aircraft in fleet: 40
	• Average age of aircraft: 14 years	• Average age of aircraft: 18 years
	(25 years of useful life is typical)	(25 years of useful life is typical)

Company A Balanced Scorecard

Category	STRATEGIC OBJECTIVES	KEY PERFORMANCE INDICATORS	TARGET VALUES			KPI ACTION PLAN DETAILS		STUDENTS KPI SELECTION RATIONALE	
			YEAR 1	YEAR 2	YEAR 3	EXAMPLES OF PROGRAMS/INITIATIVES	BUDGETS	SELECTION RATIONALE	CAUSE-EFFECT RELATIONSHIP
FINANCIAL	Increase annual growth	Currently at 2.5 - 2.9% year over year. KPI as percentage of revenue growth	3.20%	3.40%	3.60%	• Create frequent flier program to entice customers. • Strengthen customer relationship and marketing to increase growth. • Introduce customer satisfaction surveys.	10% of budget	In order to increase market share and growth with customer retention and new customers, we can watch KPI like revenue from market growth, new customers, and existing customers.	Increasing growth rate if the rate for competitors are the same than our market share will increase. Increased revenue from new and old customers without increasing price will show growth of customers old and new
	Increase Market share	revenue growth rate	18.90%	20%	22%				
INTERNAL PROCESSES	Improve employee retention	reduce turnover - currently at 12%	11%	10%	9%	• Reduce employee turnover by increasing incentives to stay like supporting secondary degrees • Creating a friendly, inclusive work environment. • Reduce ages of fleets by retiring old ones and buying new ones	20% of budget	Since the turnover is currently at 12%, it's safe to start from there and improve yearly by 1%. 1% seems like a safe and achievable number.	The most important of a company is its people. Reducing employee turnover is important so therefore should be allowed to have 20% of its budget. A way to improve retention is creating atmosphere for employees to stay.
	Improve aging fleet of aircraft	reduce average age of fleet - currently at average of 14 years	12 years	10 years	8 years				
CUSTOMER/MARKET	Improve Public Image	Customer satisfaction survey	75%	85%	95%	Social media marketing to attract younger customers. Improve amenities like having frequent flier program that's achievable for younger, economical customers.	5% of budget	Improved customer satisfaction index will show a strong customer relationship and therefore create revenue growth from existing and new customers.	Increased satisfaction will help decrease number of complaints and increase customer satisfaction index.
	Improve baggage handling	number of complaints	100	90	80				
LEARNING AND GROWTH	Modernize fleets of aircrafts	Fuel efficiencies	5%	10%	20%	Modernize aircraft. Increase R&D to create efficiency and modernized aircrafts.	10% of budget	In order to modernize aircraft, new aircraft with new technology should be introduced.	The company's strategy has been to reduce aging aircrafts and carry newer ones. This plan will allow strategy of having age of fleet to eight years to be achieved in three years.
	Improve 20% fuel efficiency	R&D budget	100	150	200				

Company A
Cost-Benefit-Risk Analysis

Opportunity Cost

- Company B is known to have strong business relationships with area employers in theme park industry
- Investment on skilled personnel

Risk

- Expensive personnel and fuel
- Issues with recruiting skilled technicians and pilots
- 1/3 of expenses on capital equipment
- No aircrafts younger than 10 years
- Low: all can be fixed with TransGlobal experience

Company B Balanced Scorecard

Category	STRATEGIC OBJECTIVES	KEY PERFORMANCE INDICATORS	KPI TARGET VALUES			KPI ACTION PLAN DETAILS		STUDENTS KPI SELECTION RATIONALE	
			YEAR 1	YEAR 2	YEAR 3	EXAMPLES OF PROGRAMS/INITIATIVES	BUDGETS	SELECTION RATIONALE	CAUSE-EFFECT RELATIONSHIP
FINANCIAL	Increase annual growth	Currently at 3% year over year. KPI as percentage of revenue growth	4%	5%	6%	Introduce customer loyalty program to entice repeating customers.	10% of budget	In order to increase profit margins, we will specifically evaluate net profit margin. and revenues from existing customers.	Introducing the loyalty program will entice repeating customers and increase net profit margins.
	Improve net and grow profit margin	net profit margin	0.20%	5%	10%				
INTERNAL PROCESSES	Improve employee retention	reduce turnover - currently at 18%	17%	16%	15%	Continue company strategy by building the best workforce. Improve airplane cleanliness, improve amenities, food, and beverages.	10% of budget	Increased customer satisfaction and decreased number of complaints shows that customers are happy.	To increase customers satisfaction, we need to improve what surveys have said that we lack: cleanliness, amenities, food and beverages.
	Improve airplane cleanliness, in-flight noise	Customer Satisfaction Index	50%	60%	70%				
	Improve amenities, food and beverages	number of complaints	100	90	80				
CUSTOMER/MARKET	Change image as innovative leader instead of value leader	Customer satisfaction index	50%	60%	70%	Market airline as an innovator, not as a cheap transportation company. Advertise in higher-end shops and magazines.	10% of budget	Improved customer satisfaction index and changing customer's perspective of company will show a strong customer relationship and therefore create revenue growth from existing and new customers.	Marketing company as a high-end airline will allow the airline to service less people but higher revenues. Focus is highly on customer satisfaction.
	Improve airplane cleanliness, amenities, food and beverages and in-flight noise	Customer Satisfaction Index	75%	80%	85%				
LEARNING AND GROWTH	Improve number of employees w/ post-secondary degrees	increase number of education programs/ employees satisfaction rating	60%	65%	70%	Offer low-cost programs to help achieve higher learning instead of just regulatory refresher courses and quality and customer satisfaction courses.	10% of budget	A high employee satisfaction rating usually showcase strong employee retention.	Turnover rate is very high. If we create an atmosphere where employees can learn and have a future than employees will stay. Higher enducation programs will stop employees from being pigeon-hold and therefore stay with the company.
	Increase employee retention	decrease turnover rate	18%	15%	13%				

Company B
Cost-Benefit-Risk Analysis

Opportunity Cost

- Time to money to change image and PR
- Effort to make profit marge and growth higher

Risk

- Company wants to be known as innovator, not economical travel
- Annual growth YoY: 3%
- Net profit margin: 0.2%
- Average aircraft: 18 years
- High turnover rate at 18%
- Recent bad PR
- High

Proposal

Acquire Company A

Rationale:

Company B has too many costly improvements

Takes a lot of money to change their image and reputation

Company A's complaints has only been check-in convenience and speed, baggage handling, departure times – all fixable

- Has great customer service
- Cleanliness and amenities

Assumptions

- Worst case scenario
  - Costly to attract and retain employees in area cost-effectively
  - Aircrafts has shorter shelf-life than predicted
  - Aircrafts not maintained properly, costs to fix

- Best case scenario
  - Cosmetics only
  - Cleaning aircraft, boosting visibility
  - Could use our help in personnel and equipment capital

Thank You

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