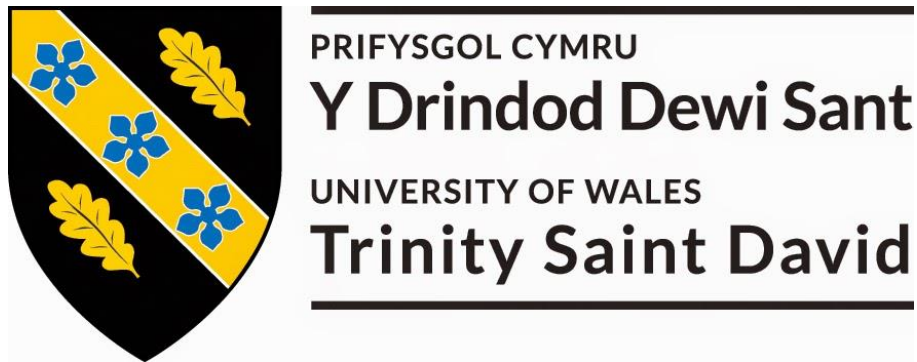




The Strategic Change and Organisations (SBPD7005_LON)

Strategic Management Report on Ineos



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Executive Summary

The aim of this report was to conduct a strategic external and internal environment analyses through the use of various strategic analysis tools based on which recommendations need to be provided in terms of the strategic option which Ineos should take. In addition to this, it focused on identifying and providing ways through which barriers encountered will be overcome. Hence, the analysis of internal environment was done through financial analysis, VRIO framework and value chain analysis while the external environment was analysed through Porter's five forces model, PESTLE and industry life cycle. The use of these frameworks revealed that Ineos operates in a very mature market in UK which is almost declining but due to strong financial position, the company has been able to pursue unrelated diversification in different business to spread the risk. However, its investment in fracking business needs to have effective risk management system to ensure that it is successful in this sector. Furthermore, based on the industry stage in UK, it is also recommended that the company pursue niche strategy to ensure stable demand.

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Introduction

This report is focused on conducting a strategic external and internal analysis through the use of relevant analytical tools of Ineos based on which advice will be given related to the strategic options that they need to take and the barriers which they might face in the implementation of recommendations of those strategic options. In addition to this, it will provide ways those which these barriers can be overcome. Therefore, the report will initially provide an overview of Ineos followed by the external environment analysis which will be done through the use of Porter's five forces model, PESTLE analysis and industry life cycle. Moreover, the internal environment analysis will be done through the use of value chain analysis, VRIO framework and financial analysis. This will help in analysing as well as evaluating the future and current positions based on which alternative options will be determined. Furthermore, this will result in providing recommendations for which action plan will be made.

Overview of Company

Ineos is a chemical company which focuses on producing raw materials which are important in the manufacturing of a wide range of goods such as mobile phones, medicines, technology, textiles, plastics and paints (Marketline, 2018). Hence, the portfolio product comprises of products which are related to textiles, type, rubber, papers and pulp, packaging, electronics and hones, sheets and films, cosmetics, chemicals, agriculture and automotive related material. The company has also diversified its business in different sectors such as buying a football team, Belstaff which is a luxury British leatherwear company producing motorcycle jackets, shoes and bags. The company also have the aim to start manufacturing from the start on the spiritual successor to Land Rover Defender which has been withdrawn from the product in 2016 (Pooler,

2017). The company has operations in Asia, Canada, US, Europe and other regions across the globe while its headquarters are in London, UK (Marketline, 2018). The company has a number of strengths such as low-cost and high quality production facilities, plants which are well-invested and which benefit from the economies of scale, have favourable location along with leading market positions. In addition to this, the company has operating diversity which is related to the markets it serves, applications, geographic regions, customers and products. Moreover, the philosophy of the company is based on operating a decentralised and simple organisational structure along with having programmes which are focused on incentivising the employees (Ineos, 2018).

External Environmental Analysis

This type of analysis comprises of evaluating task and broad environment for determining opportunities and threats along with providing a foundation for the strategic direction (Harrison & John, 2013). The analysis of this environment will be done through the use of PESTLE analysis, Porter's five forces framework and industry lifecycle.

PESTLE Analysis of UK Market

The PESTLE analysis comprises of analysis of different factors in the environment as shown in the figure below:

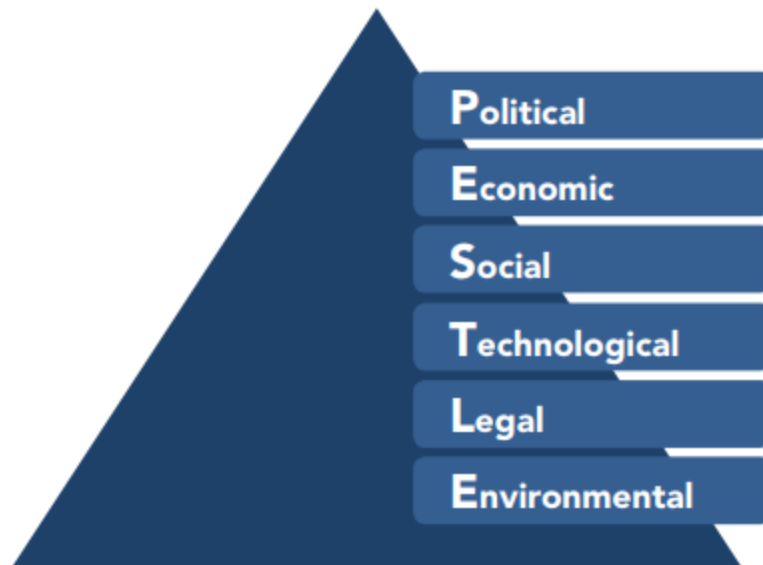


Figure 1: PESTLE Analysis (FME, 2018)

Political Environment

UK has a stable system of government as the political landscape is based on the ethos of democracy. It has a Westminster system in which the power is distributed between the judiciary and the executive branch which is led by the country's prime minister and the bicameral legislature with an effective system of checks and balances (Marketline, 2017). In addition to this, based on the governance indicators of World Bank, the country has been successful nation in terms of applying regulatory quality, government effectiveness, corruption control and rule of law (World Bank, 2018).

Though the political environment is stable in the country, Ineos has had talks with the UK government related to setting of more than £100 million facility at its site in Belgium or Hull (Pfeifer & Pooler, 2018). In this regard, the director of Ineos stated that any help will result in

favouring the establishment of the plant in Hull. Moreover, the company is having concerns that the government is not able to act due to European Union (Pfeifer & Pooler, 2018).

Economic Analysis

UK has a higher per capita GDP which is expected to further grow as well as a favourable climate for investment (Statista, 2018). The government is however challenged by lower productivity levels as well as decline in its share in export market. On the contrary, the fiscal deficit has been narrowing which is considered to be beneficial in the long run. However, higher rate of indebtedness and Brexit are the short term economic risks which are faced by the country (Marketline, 2017). This shows that the economic environment in the long run will be beneficial for Ineos.

In such an economic environment where economic risk is present, Ineos has said that it will make economic sense if it started extracting gas locally from Scotland rather than importing it from US but the Scottish government has been sceptical related to exploiting reserves of shale gas which are beneath the ground (Woods, 2017). This shows that the company is not able to overcome the short term economic risks in the UK environment however in the long run the economic environment will be supportive to the Ineos business.

Social Analysis

The residents in UK have a higher standard of living as compared to the other developed nations. This is due to its long economic growth which has helped it to develop a robust social infrastructure. Moreover, the healthcare and education system has been ranked as best in the

world (Marketline, 2017). In addition to this, the country has been focusing on alleviating income inequality and eradicating the child poverty by 2020.

Ineos tends to be fully committed to open consultation with the local communities for shale gas extraction. In this regard, it has developed industry leading package which has been focusing on providing communities with real stake in the development. Hence, the company has promised that it will share 6 per cent of the revenues in which 4 per cent will go to the home and land owners while 2 per cent will be given to the wider community (Ineos, 2018). This shows that Ineos supports the social environment in UK.

Technological Analysis

UK's government has been taking steps for boosting the competitiveness of the country in terms of research and development. The increase of investment in this regard is considered as being positive but the shortage of skilled personnel can pose serious challenge to this attempt of the country (Marketline, 2017).

A major challenge for chemicals industry in UK is that most of the plants have reached the end of the economic life due to which the replacing or shifting might not be economical. In this regard, the company announced that it will review the future of its G4 cracker which shows that innovation will be made to secure the future (PWC, 2009).

Legal Analysis

UK is a constitutional monarchy which is formed on the basis of parliamentary democracy (Santander, 2018). The legal system of UK is efficient, transparent and organised which makes the environment being conducive to the business. In addition to this, legislation has been

enforced in fair manner through various agencies which have been developed for monitoring specific areas. Furthermore, the government has developed general tax avoidance rules and treaty has been developed for improving tax transparency (Marketline, 2017).

Due to these stringent rules related to taxes, Ratcliffe who is a high profile Brexiter has moved to a tax-free principality for avoiding UK taxes which can be imposed on his 21 billion pounds fortune (Neate, 2018).

Environmental Analysis

The country has played an important role in formulating future global policies because the leaders regard sustainable development and climate change as being other countries for committing to this cause. In this regard, UK needs to reduce emissions related to pollutants to ensure environmental protection in the long run (Marketline, 2017).

However, Ineos has a chequered environmental record in UK specifically in its Grangemouth plant in which there have been poor assessments for the environment for accidental discharges and unabated emissions. Hence, it has received a number of notices and has also had various safety lapses which have leaked gas and oil (Food and Water Watch, 2018). This shows that Ineos has failed, up to some extent, to have a positive impact on the environment in UK.

As PESTLE analysis is a technique which tends to facilitate a wider scan of the potential or actual factors and the context which will affect the organisation, if they are not managed, the analysis has helped in revealing that UK is an attractive market where Ineos will be able to continue its operations (Murray-Webster, 2010). However, to further understand the external

environment, it is important to analyse the industry. Hence, Porter's five forces and industry's life cycle stage will also be used.

Porter's Five Forces

It is a generic framework which is based on deconstructing the structure of industry into five different competitive forces which are shown in the figure below. These forces are the determinants of the attractiveness and structure of the industry (Nemati & Barko, 2004). In addition to this, the interplay between these forces tends to determine the competition intensity in the industry. Hence, the extent to which the firm is able to defend itself or influence any one of these forces can form the basis for competitive advantage in the industry (Nemati & Barko, 2004).

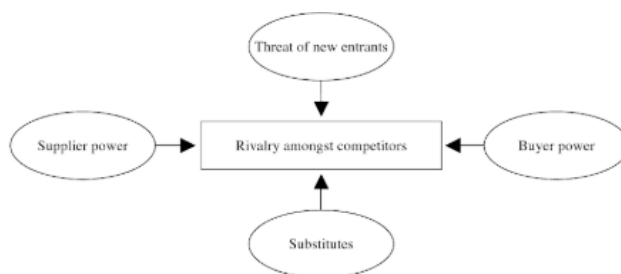


Figure2: Porter's Five Forces Model (Graham, 2008)

Power of Buyers

As the products in the chemical manufacturing comprise of speciality and base chemicals, the buyers consist of manufacturers of water utilities, plastic products and many others. All of these buyers are medium or large sized businesses that have a weak negotiating power. However, the base chemicals are undifferentiated due to which the branding is not important. Hence, the buyers have the power to buy the same chemical from different suppliers (Marketline, 2011).

Moreover, the speciality chemicals tend to be high value chemicals having diverse markets of end product due to which they are sold for what they can do. This versatility adds power to the buyer but overall the power of buyers is moderate in the industry.

Power of Suppliers

The main ingredients which are used for chemicals are natural gas or oil due to which the power of suppliers is increased as the main gas and oil companies are large. In addition to this, the power of suppliers has further increased as most of the chemical manufacturers mainly in Europe have been facing reluctant customers as well as increasing prices of raw materials. However, the power of suppliers is weakened as the raw materials being used are not differentiated (Marketline, 2011). Moreover, the economic situation of 2011 made the manufacturers reduce their production which would have reduced the demand for raw materials. This would have further weakened the power of suppliers. This shows that overall the power of suppliers is moderate.

Threat of New Entrants

Chemicals need to be produced in bulk due to which economies of scale are very important to have good margins. Moreover, the entry into the industry requires large amount of capital for setting these high volume production plants. In addition to this, there are very strict regulations related to chemical and their use due to which the compliances tend to increase cost (Marketline, 2011). This shows that the threat of new entrants is weak in the industry.

Threat of Substitutes

As chemicals are considered to be essential to the wide range of businesses, as a whole they do not have any substitutes (Marketline, 2011). Moreover, the buyers require products having specific composition due to which the threat related to substitutes is very weak in the industry.

Level of Competition

There are a large number of medium and large sized firms which are active players in the chemical manufacturing industry. As the industry is mainly commoditised, it is difficult for the players to be able to offer strong incentives for the customers to not switch to the competitors. Moreover, the industry requires high fixed costs due to which the exits costs are also high. All of these factors tend to increase rivalry which is eased in the period of rapid expansion of market but is intensified when there is global recession (Marketline, 2011). In case of UK, after the recession, the chemical manufacturing industry was expected to grow but at marginal rates which had intensified the industry. This shows that the level of rivalry is strong when various factors are regarded.

Industry Life Cycle (ILC)

The efforts as well as outcomes of innovation efforts tend to take place in various contexts such as the industry in which it operates. In this regard, the ILC is an important framework which tends to emphasise that the stages in life cycle tend to be an important factor in terms of influencing the behaviour and dynamics of the firms. Moreover, the different stages in the

industry life cycle require different strategies which organisations need to use. Hence, the analysis of the chemical manufacturing industry in terms of the ILC is very important.

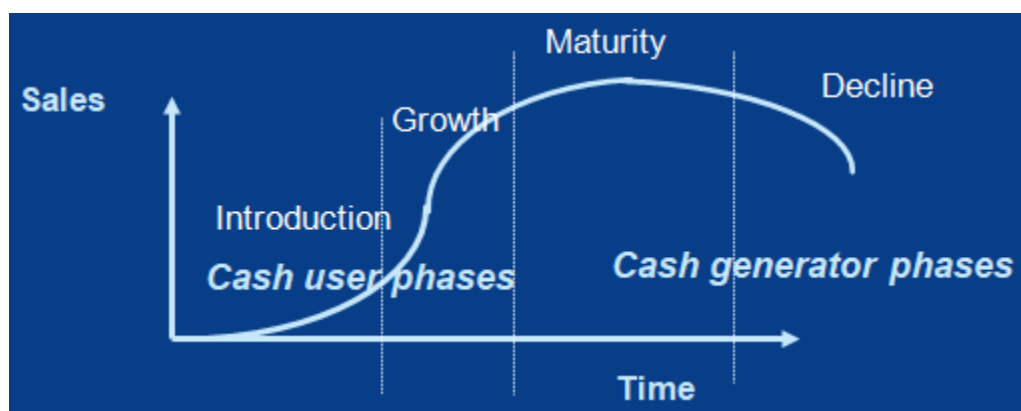


Figure 3: Industry Life Cycle (Lynch, 2015)

The chemical manufacturing sector in UK faced a hangover due to the economic crisis of 2008 after which the sector faced a further decline in 2010 as it shrank by almost 8.7 per cent (Marketline, 2011). This resulted in an intensification of competition as because of the commoditised nature of the chemical products, the prices have been rising as the demand is increasing (Marketline, 2011). However, there has been a strong growth in the production in 2017 due to which both exports and sales grew. This trend is expected to be continued in 2018 but the focus has not been on research and development and improving to preserve the competitive edge of the country in the sector (Marketline, 2011).

Furthermore, despite of the slowing of capex, there have been areas in which investments have been made (Protel, 2018). Hence, along with capex investment for relocations, process expansions and new lines, there are other areas which are attracting large amount of opex and capex expenditure. In this regard, organisations such as Ineos made an upgradation of almost 350 million pounds of its infrastructure and process (Protel, 2018).

This analysis shows that the industry has faced a decline in the 2009-2010 period after which it has been growing in terms of sales. However, as the level of rivalry is intense in the industry, the overall industry is at the maturity stage in which the companies need to make upgradation as well as investments to maintain their sales and market share.

This analysis of the external environment in which Ineos has been operating has revealed that the economic crisis of 2008 had an adverse impact on the industry in terms of decline in sales as well as overall growth. This trend was further continued till 2010 which resulted in intensifying the competition. However, the industry has been gradually growing since then but the overall growth has been marginal.

Internal Environmental Analysis

The main purpose to conduct internal environment analysis is to identify weaknesses as well as strengths in the company which involves the analysis of various factors related to a firm such as the human resources, organisation structure, manufacturing, R&D, finance and marketing (Havaladar, 2005).

Value Chain Analysis

Value chain is considered to be an important approach to develop strategy. This is because it can be used for developing competitive strategies, understanding the various sources of competitive advantage and developing interrelationships and linkages between the activities which develop value (Ensign, 2001). Moreover, in the industries in which there is intense competition, organisations might be required to coordinate the sharing of various activities between the various sub-units. Hence, the market forces and customer demands might need co-ordination

which tends to move beyond the integration between the traditional structure, product lines and functional departments (Ensign, 2001). The basic model of value chain is shown in the figure below which shows that there are mainly support and primary activities in which the primary activities are related to creating or delivering a service or product. Each of the five primary activities is linked with the support activities which help in improving the efficiency and effectiveness of primary activities (Recklies, 2001).

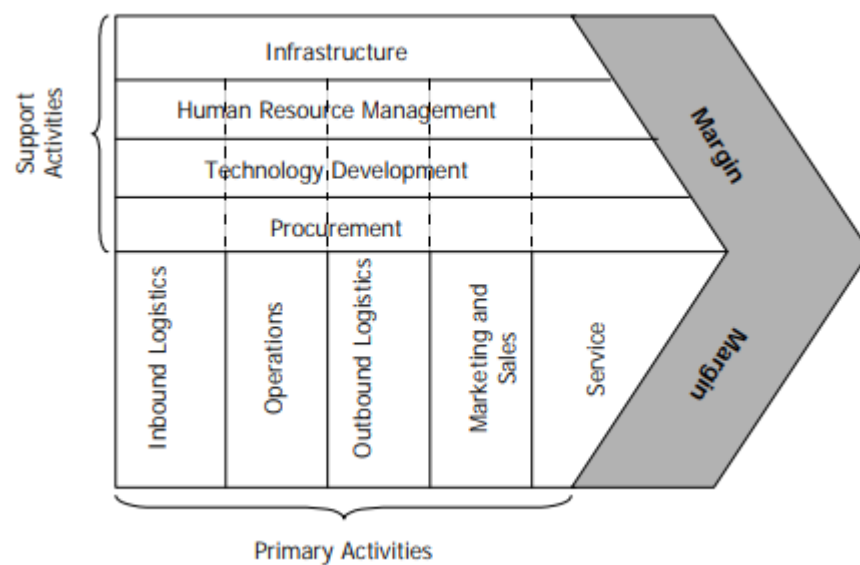


Figure 4: Value Chain (Recklies, 2001)

In the case of chemical manufacturing at Ineos, the company focuses on reducing both environmental and cost impact along with maintaining high safety standards and quality. In order to ensure that the commodity chemicals are efficiently transported, the company tries to avoid transportation as Ineos focuses on negotiating the swaps with other units of production of same commodity to ensure that it is closer to the customers (Ineos, 2018a). This is done between its own sites or with the other suppliers. In case, this is not possible, the alternative is through a pipeline. Moreover, the company tends to encourage its customers to co-locate at same locations

which are connected and followed by the use of barge or ship, then rail and finally the road (Ineos, 2018a). This shows that Ineos has a cross-business network of supply chain in which the managers tend to meet regularly for sharing best practice and through the contractual agreement; all the suppliers have to be efficient on behalf of the company in providing the service (Ineos, 2018a).

VRIO Framework

It has been stated that to understand the various sources which cause sustained competitive advantage, it is important to have a theoretical model which is based on the assumption that the resources of a firm might be immobile and heterogeneous (Sanchez, 2008). Hence, the resource heterogeneity might become a competitive advantage source when the endowments of these resources of the company enable it to implement a value creating strategy which its competitors are not implementing. Moreover, the combination of resource immobility and imperfect immobility results in competitive advantage of the company as it makes impossible for the other firms to acquire the resources of the company (Sanchez, 2008). In this regard, the VRIO framework is based on four different components which are value, rarity, imitability and organisation as shown in the figure below. Hence, organisations need to have valuable resources for creating economic value and for increasing the willingness of the customers for paying and/or decreasing its cost. Moreover, in terms of rarity of the resource or capability, when the number of businesses possessing a specific valuable resource is less than the firms which are needed for generating the perfect competition, then the resource has potential of generating competitive advantage. Furthermore, the resources which are rare and valuable can help firms to sustain competitive advantage only when the competitors are not able to obtain those resources through substitution and duplication (Grant et al, 2014). The different factors which can lead to sustained

competitive advantage are unique historical conditions, causal ambiguity and social complexity. Lastly, in terms of organisation, the firm's procedures and policies need to be organised for supporting it's hard to imitate, rare and valuable resources (Grant et al, 2014).

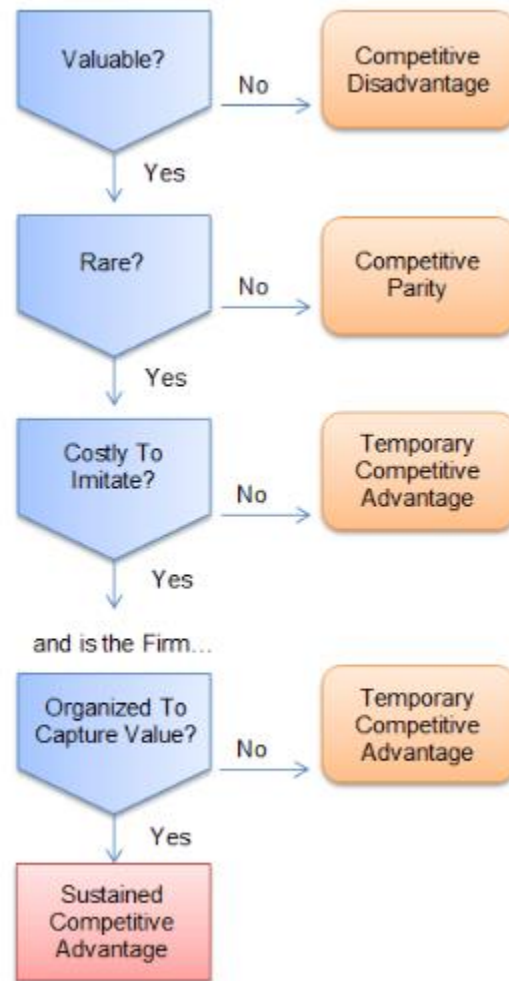


Figure 5: VRIO Framework (Jurevicius, 2013)

In terms of intangible resource, the employees are empowered in the decentralised organisational structure along with being given incentives for creating real value for the customers and the company (Ineos, 2018). This is a valuable resource for the company which is valuable, hard to

imitate due to social complexity and has been organised in a way which results in above normal economic performance.

In terms of technology, the company has three different research and technology centres present across the globe in which the engineers and scientists are focuses on providing innovative solutions for meeting the needs of the customers (Ineos, 2017). The company also has partnership with Nee Materialien Bayreuth GmbH which enables the business to ensure that its R&D is focused on the customer related innovations which are downstream (Ineos, 2016). This shows that the company's R&D is valuable, hard to imitate and is based on proper policies and procedures in the organisation. Hence, it creates above normal economic performance.

This shows that the company has temporary competitive advantage and it needs to ensure that its capabilities and resources are valuable, rare, well organised and hard to imitate to attain sustainable competitive advantage in its highly competitive business sector.

Financial Analysis of Ineos Group

In financial year 2017 (FY17), Ineos Group experienced a significant increase of 62% and 35% in net profit as compare to FY16 and FY15 respectively (Ineos.com, 2017). After analysing the Ineos Income statement, it has been observed that the following factor played a vital role in this dramatic change.

Ineos has managed to reduce the cost of sales as well as administrative expenses for the past two years with respect to its sales. However, the major difference in profit is due to the intense reduction in financial cost and increase in financial income (see appendix). Moreover, the company has paid less tax in FY17 as compared to last two years. Following are the key

observation drawn from the ratios analysis of Ineos Group for the year ended 31st December 2017, 16 and 15.

Profitability Ratios

In FY16, the company has invested £42m in acquiring new assets which affected the company's ability of return in capital employed by reduction of 2% as compare to FY15. However in FY17, ROCE has improved by 5% due to noticeable growth in sales and reduction in total assets. It is a positive indication that the company's efficiency to use its capital employed and return on assets is enhanced. The increase in sales also had a positive impact of Return on Asset Ratio and positive trend has observed throughout this time period (See Table 1.1). There has not much variations been observed in gross profit margin in last three years. However, even though sales growth was increased, the GP margin has dropped in FY17 which represents the inefficient utilisation of COS. Moreover, net profit margin also shows the similar trend due to increased administrative expenses in FY2017.

Profitability ratios	2017	2016	2015
Return on Assets (ROA)	20.82	13.85	11.17
Return on Capital Employed (ROCE)	24.95	19.83	22.32
Gross profit margin	17.66	19.58	17.56
Net profit margin	14.51	15.06	13.76

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Profitability Ratios: Table 1.1

Efficiency Ratios

Ineos asset turnover ratio has risen in FY2017 as compare to FY2016 from 1.8 to 2.4 (see table 1.2) it means that, the company's efficiency of generate sales through its assets has increased. It is mainly because the sales volume has increased as well as company net assets has dropped which had a positive impact of company's net asset turnover.

Moreover, company's stockholding period in FY17 has dropped from 38 days to 36 days which is a positive sign but still it is higher as compare to FY215 (32 days). Even though, company's inventory has increased but stockholding days has drooped in FY17. This indicates an efficient use of production as well as controlled COS.

On the other side, debtors' collection period has improved throughout the years from 47 days to 41 days. This shows the company's ability to collect payments from its customers has improved and have stronger cash inflows. In contrast, creditors' collection period has slightly increased in last three years from 48 days to 53 days. It means company has managed to keep cash within the company longer than before. However, a significant increase in payment period may arise the risk of losing the good will and slow payments may encourage the suppliers to drop their product quality (Bamber and Parry, 2014).

Efficiency Ratios			
Net asset turnover	2.38	1.80	2.26
Stockholding period (in days)	36	38	31
Debtor collection period (in days)	41	43	47
Creditor payment period (in days)	53	51	48

Efficiency Ratios: Table 1.2

Liquidity Ratios

The similar trend can be observed in both quick ratio and current ratio. There is slight decrease in Ineos current ratio in FY17 as compare to FY16. The reason is due to reduction in current assets and increase in current liabilities. Furthermore, Ineos ability to pay back its liabilities in FY16 was improved as compare to FY15. However, the overall current ratio of Ineos is still strong and the company is in healthy position to pay back its short term obligations.

Liquidity ratios			
Current Ratio	1.96	2.69	2.40
Quick assets	1.40	2.09	1.88

Liquidity Ratio: Table 1.3

Solvency Ratios

The positive trend has observed in company's gearing ratio throughout the years as company is constantly paying back its loans. Although, Ineos is highly geared company but strong and persistent cash inflow offsets the high gearing effect. It also shows that the company is taking advantage of the increased profits that financial leverage may bring (Seal 2015). Additionally, debt to equity ratio has dramatically improved due to significantly increase in shareholders' equity.

The decreased trend of debt to asset ratio indicates that company is able to pay down its debt and bulk of its asset funding is coming from equity rather than its debt (Needles and Powers, 2012).

Moreover, Ineos interest cover ratio has increased from 2 to 5.5 which indicate the healthy financial position of the company with respect to its capability to meet its interest obligations (Olive, 2012).

Capital gearing ratios			
Debt to equity	3.63	18.65	14.71
Gearing	78.40%	94.91%	107.29%
Debt to Asset	0.56	0.71	0.81
Interest cover	5.53	3.61	2.09

Capital Gearing Ratios: Table 1.4

After examining the financial ratios and financial data from the company's annual reports, it can be observed that, overall Ineos has a healthy financial position with strong and consistent cash inflows which help Ineos to keep its daily operation running. The reliable sales growth and enhanced cash inflows provide opportunity to invest in new business sectors as well as healthy financial position plays a vital role in making future business strategy for Ineos.

Strategic Options that Ineos should Take

In order to determine the different alternatives which Ineos can adopt, it is important to have an understanding of the situation of the company in the past along with conducting the internal and external environment analysis. Ratcliffe has an entrepreneurial and risk taking form of leadership style in which he takes well-timed risks to turn his ideas into realities (BBC, 2013). In addition to this, the businesses gives autonomy to its chief executive and management so that the spirit of entrepreneurship is generated through which the employees can make decisions quickly (Ineos, 2014). This has contributed to his success as he has been able to locate the unmanaged parts of businesses and converted them into successful businesses. Furthermore, his negotiations with the workers of Grangemouth revealed that he has a people management problem as he threatened to close the plant due to which the workforce do not see much of him (Pfeifer, 2014). On the other hand, his business partners also said he is very persuasive in his negotiations and business dealings and does not stop his persuasiveness till the other party has agreed (BBC, 2013).

Furthermore, during and after the financial crisis of 2008, Ratcliffe used an emergentist strategy and shifted to Switzerland as the manufacturing sector in the UK is very little. Hence, to overcome the problems faced by the crisis, the company used emergentist strategy to overcome the issues which were being faced in the UK economy (Ineos, 2014). In addition to this, as the

environment is changing constantly, there is a need to have a shift to an energy and resource efficient society in which the chemical industry plays an important role. Moreover, the company is committed to the principles related to principle care which are put into practice in the daily operations (Ineos, 2018b).

In addition to this, safety, health and environment are considered to be most important in all the sites in which it operates due to which all of its sites are ISO 9001 certified, 50 per cent are 14001 on the environment and 33 per cent are ISO 50001 on the energy efficiency (Ineos, 2018c). Moreover, the company has an OSHA score of 0.32 as compared to the 0.3 for the best in the class. This shows that not all of its plants are environmental friendly and energy efficient (Ineos, 2018c).

Furthermore, the analysis has revealed that the success of Ineos strategies has been based on his leadership qualities which provided the company with the right decisions in terms of selecting the sites and companies which he wanted to purchase and as most of the stake is owned by Ratcliffe, he is able to take risky decisions without having to deal with the stakeholders. In addition to this, the banks tend to give loans to the company due to the ability of the leader to look at the asset in terms of the machinery, employees and the overall infrastructure due to which he is able to make realistic predictions about the way he can turn the company within a period of 5 years (BBC, 2013).

Based on this information and the analysis conducted for the internal and external environment, there are a number of recommendations which have been made that will be analysed in terms of their specific payoffs.

As the analysis revealed that the manufacturing industry is declining in the UK due to which the demand for chemicals is also declining. In this regard, the conventional strategies which are recommended are harvesting or divesting. It is important to however understand that such types of mature industries which are almost declining are unprofitable. Hence, if there is potential for profit, there are other strategies which might be attractive which can be pursued sequentially or individually (Grant, 2010).

Moreover, it is also important to analyse the current strategies which have been adopted by Ineos since 2010. In this regard, the analysis of diversification strategy of Ineos revealed that the company has been pursuing unrelated form of diversification by entering into different businesses such as leather goods for motorcyclists and Land rover. After acquiring Land Rover, Ratcliffe has been focusing on developing his own alternative to the Land Rover Defender for which a team of almost 200 engineers have been working at MBtech for the design of new off-roader (Dey, 2018). This has been an effective strategy as Ineos is focusing on developing its own version of Land Rover for which it has conducted a survey to explore the elements which are of interest to the 4X4 owners and off-road drivers. Hence, through this approach the company is exploring the various features which the new off-roader should have (Brown, 2018). This shows that it is an important strategy to identify the gaps in the 4X4 vehicles markets through its own version of the Land Rover.

However, its decision to enter into fracking which is considered to not just poison the communities and pollute the entire ecosystems but also reshapes the entire economy (Ethical Consumer, 2017). Hence, its entry into the fracking has been a controversial strategy in terms of being financially beneficial for the company but harmful for the society and being highly opposed by the government of Scotland (Edwards, 2018). Based on the situation of external

environment of UK and the internal resources/capabilities, there are various strategies which can be implemented by Ineos which are given below. However, the most effective strategies from among the mentioned strategies will be done in the recommendations section.

1. Leadership

Ineos can focus on gaining leadership due to which the company will be in a position to be ahead of the competitors and play an important role in the last staged of the life cycle of the industry. After such a position is achieved, businesses can be in a better position for harvesting strategy and be able to enjoy profit streams which are stronger (Grant, 2010). This can be done through the acquiring of the competitors. However, an easier approach is to encourage the competitors to exit after which their plants can be acquired. This can be done by lowering the entry barriers and raising the stakes through more environmental controls.

2. Niche Strategy

In this strategy, a segment will have to be identified by Ineos through which it will have stable demand and in which the other firms will not invade (Grant, 2010). This need to be followed by pursuing leadership strategy for establishing dominance in the segment.

3. Harvesting Strategy

Through harvesting, Ineos will be able to maximise the cash flow from their prevailing assets along with avoiding further investments. Hence, under this strategy, Ineos can focus on increasing its profits when possible by increasing prices and reducing costs. This needs to be done through the rationalisation of the number of customers and channels (Grant, 2010). However, in the strong competition such as the one present in the chemical manufacturing, the

harvesting strategy can be hard to implement and might result in accelerating decline especially if the morale of the employees is affected indirectly through the strategy in which there is no long term future of the business (Grant, 2010).

4. Divest Strategy

When the future is forecasted to be bleak, the most appropriate strategy is to divest business in the initial stages of decline. This needs to be done before consensus is developed related to the inevitability of the decline (Grant, 2010).

5. Diversification

Diversification is a strategy in which the firm enters into untapped or new markets or the industries which offer new products or business activities. This is done through the acquisition or the development of internal process that result in changes in its management process, systems and structure. It is an important strategy when the firm has the aim to increase its financial gaining by having more sales from the new markets and products (Gitau, 2015). An important point to consider is that proper diversification can result in bringing competitive advantage due to which it is an important business tool (Gitau, 2015).

There are different forms of diversification which organisations such as Ineos can adopt. The first is horizontal differentiation in which the focus is on developing or acquiring new services or products which can appeal to the current groups of the customers. Hence, firms tend to rely on technological and sales related to its product lines which are existing (Strategy-Train, 2009). The second form is vertical differentiation which takes place when organisations tend to move back

or forward in its production cycle which might guarantee a better supply of materials with lower prices and better quality (Strategy-Train, 2009).

The third type is cocentric diversification in which the firm can enlarge the production through the addition of new products with the goal to fully use the potential of the prevailing marketing systems and technologies of the firm. This is regarded as a more efficient strategy as the firm can benefit from some of the synergies through this form of diversification (Strategy-Train, 2009).

The fourth form of diversification is conglomerate diversification in which the focus is on moving to new services or products which have no commercial or technological relation with the prevailing distribution channels, equipment and products but might be appealing to new customers. The main reason for pursuing this form of unrelated diversification is higher return on the investment made in the new industry (Strategy-Train, 2009).

Recommendations

From among the different alternatives which have been mentioned in the previous section, it is important to select the most appropriate strategies for the company based on the internal and external environment analysis which has been conducted.

From among the four types of diversification, the first three are related diversification while the last one is unrelated diversification. The related diversification result in reaping competitive advantage benefits in terms of skills transfer, well-known brand name, stronger competitive capabilities and unity among the various activities of the business (Gitau, 2015). On the other hand, in terms of unrelated diversification, the most important benefit is related to the spreading of risk. This is because the risks related to conducting business can spread over companies which have activities that are very different from one another. It also results in enabling the company to

invest in any sector in which they feel there is potential without having to worry about the correlation with its main business. In addition to this, the profitability of the firm is not based on the economic impact because this form of diversification is based on various markets present having various trends. It is however important to understand that there are challenges which are present such as managerial capacity. There are other challenges which might be relayed to the flow of information in the group and in some instances the central management can face stress. This shows that this form of diversification tends to be more prone to errors as compared to the related diversification (Gitau, 2015).

The specific strategy which a company selects for diversification is based on the reason due to which the company pursued diversification. Hence, if the company is pursuing diversification as the trend of sales represents a decline in the sales and demand, it will not be effective to pursue vertical diversification (Ansoff, 1957). This is because it will also lead to an eventual decline in the business. Hence, if the trends forecast that there is a slow growth in a growing and healthy industry, both horizontal and vertical diversification will be effective in terms of strengthening company's position as its experience and knowledge are concentrated there. Moreover, in case there is concern related to the stability, the chances are that both of these diversifications will not be providing enough influence due to which other strategies need to be implemented (Ansoff, 1957).

Based on the analysis of the external environment, it was revealed that the financial crisis of 2008 resulted in an adverse impact on the business operations of Ineos. As a result, Ratcliffe used emergentist approach in which unrelated diversification was pursued as he expanded into different yet unrelated sectors such as fracking, motorcycle riders' clothing, sport and landrover cars. This approach was appropriate after 2010 as the company had the funds to invest in new

businesses as can be seen in the financial analysis of the company. This shows that the company has focused on pursuing conglomerate diversification to ensure that its risks are spread across different businesses and not just chemical manufacturing. However, the company might face issues in terms of running such diverse businesses when it has the experience of chemical manufacturing. In this regard, the decentralised organisational structure in which autonomy is given to each company in the group will be appropriate as it will ensure that the management team of those companies operate them by using their experience and knowledge of the field (BBC, 2015).

However, the company has been facing issues in its fracking business which shows that the decision to enter into this new business might not have been sensible. This is because fracking has faced criticism as it uses large amount of water which needs to be transported to the site at high environmental cost. In addition to this, the environmentalists state that potentially carcinogenic chemicals might result in escaping and contaminating the ground water present around the site. There have also been worries that fracking will result in causing earth tremors which are small (BBC, 2015). Furthermore, fracking has also been criticised in terms of being a distraction of the governments and energy firms from investing in the renewable resources and encouraging them to continue depending on the fossil fuels. However, the government believes that it has the potential to provide higher security in terms of energy, jobs and growth (BBC, 2015). Hence, the Derbyshire County Council had rejected the bid from Ineos related to exploratory mining near Marsh Lane (BBC, 2018). The planning inspector has stated that there will be slight harm in the living conditions of the residents in terms of the noise during the night time but it will not outweigh the benefits related to exploration (BBC, 2018). This shows that the decision to diversify into fracking has not been profitable and is facing barriers. In order to

ensure that Ineos is able to ensure minimum harm related to fracking, it needs to implement proper risk related measures.

In order to implement proper risk management system, it is important to understand that it is the minimisation and eradication of adverse effects related to risk to which a firm is exposed. Hence, Ineos need to manage risk differently as compared to its chemical manufacturing business. In order to do so, Ineos will have to implement quantitative risk assessment (QRA) approach in which a numerical estimate is made related to the probability that the defined harm will result due to the occurrence of the specific event (EPIC, 1996). The hazard has the potential of causing harm which includes injury and ill health, damage to the environment, plant, products or property, losses of production or an increase in the liabilities. Moreover, the QRA is considered to be the most commonly used approach to quantifying the risks related to major hazards (EPIC, 1996). The QRA is based on two types of risks which are societal risk and individual risks in which the individual risk refers to the frequency at which a person will be expected to sustain a certain harm level by realising a certain hazard. Furthermore, the acceptance criteria is that a risk of about 1 in 1000 per annum is the most which is accepted ordinarily under the modern conditions for the UK workers and is considered to be the dividing line between being tolerable and intolerable (EPIC, 1996). In order to assess the risk and the hazard, Ineos should use failure modes and effect analysis (FMEA). It is a proactive and systematic method to evaluate the process of identifying how and where it might fail and for assessing the impact of various failures. This helps in identifying parts which require the most change. Hence, in this approach, it is important to review the steps involved in the process, modes of failure, causes of failure and effects of failure (Institute for Healthcare Improvement, 2004). Moreover, from among the various forms of FMEA available, Ineos should implement System FMEA for its fracking

business which is based on the analysis at highest analysis level of whole system which is made of different sub-systems (Carlson, 2012). Hence, the focus will be on the system-related deficiencies which include the system integration and system safety, interface present between the subsystems or the other systems and the interaction with the surrounding environment or between different subsystems along with single point failures in which a failure of single component might result in the failure of the whole system (Carlson, 2012).

This shows that to ensure the success of its diversification strategy in fracking market, the company should develop proper risk assessment approaches to minimise or avoid the risks which are related to fracking as the inability to do so will have an adverse impact on the company's profitability and its brand name.

Along with the diversification strategy which the company is being able to implement due to its strong financial position, the company should also focus on taking appropriate approach related to the life cycle stage of the industry in UK which is almost declining as the manufacturing sector is very small in the country. In this regard, from among the four different strategic alternatives which are available for the industries, the company should select the most appropriate strategy as shown in the figure below.

		COMPANY'S COMPETITIVE POSITION	
		Strengths in remaining demand pockets	Lacks strength in remaining demand pockets
INDUSTRY STRUCTURE	Favorable to decline	LEADERSHIP or NICHE	HARVEST or DIVEST
	Unfavorable to decline	NICHE or HARVEST	DIVEST QUICKLY

Figure 6: Alternative Strategies (Grant, 2010)

As the strengths of Ineos tend to fit the remaining demand and the industry is unfavourable to the decline due to the high fixed costs which are associated, it is important for Ineos to pursue niche strategy in the UK market. Hence, Ineos will have to identify a specific segment for its chemicals for which the demand will continue to remain stable and in which the other firms will not be able to compete. This should be followed by pursuing a leadership strategy to ensure that dominance is created in the segment. The company should however ensure that the most attractive niches tend to be those which offers largest amount of stability and in which the demand tends to be most inelastic. This strategy of niche followed by leadership will help the company to successfully operate in the UK market which is facing a decline.

Conclusion

The external environment analysis of Ineos revealed that though UK's political, social, economical, technological, legal and environmental aspects are good; the chemical manufacturing industry is highly competitive. The industry has high barriers to exit due to which competition remained high even when the market faced a decline during the financial crisis of 2008. Moreover, the internal analysis revealed that the company has strong and effective value chain along with possessing valuable, rare, highly organised and hard to imitate resources and capabilities due to which it has been able to have a competitive advantage. The financial analysis of the company also revealed that the company's financial position is strong due to which it is in the position to make investments by pursuing various strategies. Based on this analysis, various alternatives were determined which Ineos could use to overcome the issues that it had been facing. In this regard, based on the declining industry in the UK, it has been recommended that the company pursues niche followed by leadership strategy in the UK market to ensure that it is able to maintain its sales and market share in the country. Moreover, from among the various

forms of diversification, the company has pursued conglomerate diversification by investing in areas such as fracking. The fracking industry has faced criticism from the people along with the need to have permission from the government to start fracking. Hence, to overcome the issues associated with its decision to enter into fracking, the company should apply appropriate risk management tools for assessing the risks and hazards. In this regard, it has been suggested that the company should apply quantitative assessment to measure the hazard and risk associated with it. Hence, FMEA approach for the whole system should be used to ensure that the company is able to effectively manage risk associated with fracking. In addition to this, the decision to invest in unrelated areas has reflected the approach of the company to spread the risk in different sectors which will reduce the vulnerability related to operating in one sector only.

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Appendix

INEOS Group Holdings S.A.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
		€m		
Revenue.....	2	15,210.4	12,609.9	13,729.4
Total cost of sales		(12,524.2)	(10,141.1)	(11,318.4)
Gross profit.....		2,686.2	2,468.8	2,411.0
Distribution costs		(206.5)	(195.3)	(212.1)
Administrative expenses before exceptional items		(418.6)	(385.6)	(372.3)
Exceptional administrative expenses	5	-	(21.3)	(16.0)
Total administrative expenses.....		(418.6)	(406.9)	(388.3)
Total expenses		(625.1)	(602.2)	(600.4)
Operating profit.....	6	2,061.1	1,866.6	1,810.6
Share of profit of associates and jointly controlled entities using the equity accounting method	13a	143.5	29.3	74.4
Profit on disposal of fixed assets.....		2.6	3.7	3.8
Profit before net finance costs.....		2,207.2	1,899.6	1,888.8
Total finance income.....	9	491.9	200.0	165.1
Finance costs before exceptional item	9	(355.2)	(505.3)	(774.1)
Exceptional finance cost	5	(44.1)	(20.7)	(131.6)
Total finance costs		(399.3)	(526.0)	(905.7)
Net finance income/(costs).....		92.6	(326.0)	(740.6)
Profit before tax from continuing operations		2,299.8	1,573.6	1,148.2
Tax charge	10	(301.5)	(340.2)	(237.7)
Profit for the year from continuing operation		1,998.3	1,233.4	910.5

The notes on pages F-11 to F-87 are an integral part of these consolidated financial statements.

INEOS Group Holdings S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017

	Note	2017	2016	2015
Non-current assets			€m	
Property, plant and equipment	11	4,255.4	4,007.4	3,508.8
Intangible assets	12	731.6	763.9	706.4
Investments in equity-accounted investees	13.a	351.1	161.7	101.4
Other investments	14	238.5	262.2	243.2
Other financial assets	15	28.3	29.2	29.2
Trade and other receivables	19	957.4	1,146.8	1,114.0
Deferred tax assets	17	160.2	205.1	200.9
		<u>6,722.5</u>	<u>6,576.3</u>	<u>5,903.9</u>
Current assets				
Inventories	18	1,246.5	1,068.1	956.6
Trade and other receivables	19	1,712.9	1,501.8	1,772.4
Other financial assets	15	-	8.2	1.1
Cash and cash equivalents	29	1,366.3	2,204.1	1,648.0
		<u>4,325.7</u>	<u>4,782.2</u>	<u>4,378.1</u>
Total assets		<u>11,048.2</u>	<u>11,358.5</u>	<u>10,282.0</u>
Equity attributable to owners of the parent				
Share capital	24	0.9	0.9	0.9
Share premium		779.4	779.4	779.4
Other reserves		(2,183.2)	(1,712.5)	(1,714.7)
Retained earnings		3,099.7	1,362.3	370.2
Total equity		<u>1,696.8</u>	<u>430.1</u>	<u>(564.2)</u>
Non-current liabilities				
Interest-bearing loans and borrowings	20	6,094.9	7,947.5	8,008.5
Trade and other payables	21	120.1	107.2	91.7
Employee benefits	22	701.0	789.5	689.1
Provisions	23	28.8	28.5	25.6
Deferred tax liabilities	17	202.3	275.6	198.1
Other financial liabilities	16	2.3	0.9	12.6
		<u>7,149.4</u>	<u>9,149.2</u>	<u>9,025.6</u>
Current liabilities				
Interest-bearing loans and borrowings	20	63.0	72.6	291.8
Trade and other payables	21	1,877.9	1,563.4	1,445.1
Tax payable		248.4	124.0	75.8
Other financial liabilities	16	0.2	-	1.8
Provisions	23	12.5	19.2	6.1
		<u>2,202.0</u>	<u>1,779.2</u>	<u>1,820.6</u>
Total liabilities		<u>9,351.4</u>	<u>10,928.4</u>	<u>10,846.2</u>
Total equity and liabilities		<u>11,048.2</u>	<u>11,358.5</u>	<u>10,282.0</u>

These financial statements were approved by the board of directors on 22 March 2018 and were signed on its behalf by:

INEOS Group Holdings S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017	2016	2015
Cash flows from operating activities			€m	
Profit before tax		2,299.8	1,573.6	1,148.2
Adjustments for:				
Depreciation and impairment.....	11	454.4	398.7	370.7
Amortisation	12	13.9	44.2	12.7
Net finance (income)/costs.....	5,9	(92.6)	326.0	740.6
Share of profit of equity-accounted investees		(143.5)	(29.3)	(74.4)
Profit on sale of property, plant and equipment		(2.6)	(3.7)	(3.8)
(Increase)/decrease in trade and other receivables		(268.1)	289.3	(28.2)
(Increase)/decrease in inventories		(239.0)	(74.7)	107.0
Increase/(decrease) in trade and other payables		314.8	(35.4)	(138.3)
(Decrease)/increase in provisions and employee benefits		(6.5)	11.3	20.6
Tax paid		(143.1)	(221.8)	(167.2)
Net cash generated from operating activities.....		2,187.5	2,278.2	1,987.9
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		8.3	3.9	3.8
Proceeds from sales of investments		1.3	1.3	9.2
Interest and other finance income received.....		50.9	65.1	27.8
Dividends received		5.3	7.0	2.9
Disposal of businesses, net of cash disposed of	4	-	-	78.3
Acquisition of businesses, net of cash acquired	3	(2.5)	(125.3)	(179.8)
Acquisition of assets	3	-	-	(51.9)
Loans granted to related parties		(315.7)	(289.9)	(568.4)
Loan repayments from related parties.....		497.7	343.3	-
Acquisition of intangible assets		(18.4)	(9.0)	(4.6)
Acquisition of property, plant and equipment.....		(914.6)	(691.9)	(454.0)
Acquisition of other investments		(57.8)	(28.3)	(0.5)
Net cash used in investing activities.....		(745.5)	(723.8)	(1,137.2)
Cash flows from financing activities				
Securitisation Facility		(0.1)	(130.5)	(97.7)
Proceeds from new Senior Notes		-	1,101.1	-
Proceeds from new Senior Secured Notes		550.0	-	770.0
Proceeds from new Senior Secured Term Loans		-	-	1,407.3
Refinancing of Senior Secured Term Loans		(883.1)	-	-
Redemption of Senior Secured Notes		-	-	(2,086.8)
Redemption of Senior Notes		(1,151.9)	(1,111.7)	-
Issue costs paid		(21.7)	(10.5)	(36.5)
Interest paid		(310.6)	(404.0)	(537.0)
Proceeds from other loans.....		-	13.1	-
Repayment of loans		(64.6)	(303.5)	(50.8)
Dividends paid	25	(260.9)	(241.3)	(73.4)
Capital element of finance lease payment		(0.1)	(0.2)	(0.3)
Net cash used in financing activities.....		(2,143.0)	(1,087.5)	(705.2)
Net (decrease)/increase in cash and cash equivalents	29	(701.0)	466.9	145.5
Cash and cash equivalents at 1 January	29	2,204.1	1,648.0	1,434.6
Effect of exchange rate fluctuations on cash held		(136.8)	89.2	67.9
Cash and cash equivalents at 31 December	29	1,366.3	2,204.1	1,648.0

The notes on pages F-11 to F-87 are an integral part of these consolidated financial statements.

Ratio Analysis of Ineos Group

DATA COLLECTION	2017 (£m)	2016 (£m)	2015 (£m)
Current Assets	4,326	4,782	4,378
Current Liabilities	2,202	1,779	1,821
Total Assets	11,048	11,359	10,282
Sales	15,210	12,610	13,729
Long-Term Loans	6,095	7,948	8,009
Total Debt	6,158	8,020	8,300
Earnings Before Interest and Tax (EBIT)	2,207	1,900	1,889
Net Profit (after tax and interest)	1,998	1,233	911
Profit After Tax	2,300	1,574	1,148
Debtors	1,713	1,502	1,772
Cost of Goods Sold	12,524	10,141	11,318
Inventory	1,247	1,068	957
Fixed Assets	4,255	4,007	3,509
Net Assets	1,697	430	564
Gross Profit (Sales less Cost of Goods Sold)	2,686	2,469	2,411

Interest	399	526	906
Operating Expenses	625	602	600
Equity	1,697	430	564
THE FOUR KEY GROUPS OF RATIOS			
Profitability ratios	2017	2016	2015
Return on Assets (ROA)	20.82	13.85	11.17
Return on Capital Employed (ROCE)	24.95	19.83	22.32
Return on equity	117.77	286.77	161.38
Gross profit margin	17.66	19.58	17.56
Net profit margin	14.51	15.06	13.76
Efficiency Ratios			
Net asset turnover	2.38	1.80	2.26
Stockholding period (in days)	36	38	31
Debtor collection period (in days)	41	43	47
Creditor payment period (in days)	53	51	48

Liquidity ratios			
Current Ratio	1.96	2.69	2.40
Quick assets (i.e. acid test)	1.40	2.09	1.88
Capital gearing ratios			
Debt to equity	3.63	18.65	14.71
Gearing	78.40%	94.91%	107.29%
Debt to Asset	0.56	0.71	0.81
Interest cover	5.53	3.61	2.09