Rolls-Royce to shed nearly 5,000 jobs in the UK

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21 June 2018

Rolls-Royce, the UK-based aero engine manufacturer, is to reduce its worldwide workforce by around 10 percent, cutting 4,600 jobs over the next two years. The firm said it would not be able to avoid compulsory redundancies.

It is the biggest round of redundancies announced by the company since 2001. The company, which has been in existence more than 110 years, said job losses will take place across its international operations, with the majority in the UK.

The UK losses, approximately 3,000, will be concentrated at its headquarters in Derby, which currently employs around 15,700 people. Other jobs, particularly in corporate and support roles, will take place at the company's second-biggest UK site in Bristol.

Instead of a campaign to mobilise its 22,000 members employed by Rolls-Royce to fight the cuts, Unite will facilitate whatever restructuring the company demands, as it has in the auto industry.

The Unite union is pledged to doing nothing to prevent the job losses, only stating its main concern was to prevent any damage to the functioning of Rolls-Royce: "There is a real danger that Rolls-Royce will cut deep and too fast with these job cuts, which could ultimately damage the smooth running of the company and see vital skills and experience lost."

In its press release, Unite explained, "As part of a recent collective agreement with Rolls-Royce, Unite secured a guarantee of no compulsory redundancies. Unite said it would be seeking similar guarantees for its members affected by today's announcement who were not covered by that collective agreement."

Unite Assistant General Secretary for Aerospace Steve Turner said, "Over the coming days Unite will be working with Rolls-Royce, relevant agencies and other employers to find people affected alternative employment and to retain skills in the aerospace sector."

Rolls-Royce said the cuts were "the next stage in our drive for pace and simplicity with a proposed restructuring that will deliver improved returns, higher margins and increased cash flow." It would "support our long-term ambition to be the world's leading industrial technology company."

The cuts will "simplify the Group into three customer-focused business units," and the "proposed restructuring will create smaller and more cost effective corporate and support functions and reduce management layers and complexity, including within engineering."

This would allow a "healthier and dynamic organisation with clearer accountabilities, greater productivity and quicker decision-making."

The company said that about a third of the announced job cuts will go by the end of 2018, and the jobs cull will "gain further momentum through 2019, with full implementation of headcount reductions and structural changes by mid-2020."

The job cuts are the latest in a series at Rolls-Royce that have seen the loss of around 5,000 jobs in recent years.

In line with recent announcements by other companies, particularly in retail, the job losses will mainly hit middle management and support roles. In May, UK telecom company BT announced it would cut its workforce by around 12 percent, slashing 13,000 jobs in management and back office roles. A third of the losses will be overseas in BT's Global Services division. Retail supermarket giants Tesco and Sainsbury's, among others, are pushing through cuts in middle management to slim down their operations.

Warren East, on a £1.7 million salary, was appointed as Rolls-Royce CEO in April 2015 to reverse the company's fortunes. He brought in turnaround specialists Alvarez and Marsal to carry out a six-month appraisal of the company. They examined every single part of the firm's labour force productivity. The *Financial Times* quoted East saying, "Out of 18,000 job functions examined, 2,000 could simply be stopped. And there were 4,500 posts in a corporate centre that had ‘almost endless . . . rights’ to meddle in the business divisions, imposing extra cost for services they neither needed nor wanted.”

The restructuring plan, according to JPMorgan analysts, is expected to cost around £400 million to implement over three years but is projected to bring annual savings of around £200 million by 2020. It is also expected to allow a near £2 billion cash flow over the next five years to be able to invest in leading technology. Following the assessment, East confirmed the restructuring, first mooted in March, including the job losses.

Speaking to reporters, East said, “Rolls-Royce is at a pivotal moment in its history. We are poised to become the world leader in large aircraft engines. But we want to make the business as world class as our engineering and technology. We are proposing the creation of a much more streamlined organisation. We have to significantly reduce the size of our corporate centre, removing complexity and duplication that makes us too slow, uncompetitive and too expensive.”

The company’s job loss announcement immediately boosted its share price, with the stock market recording a 14 percent increase the day after. Share prices increased to over 1,000 pence a share, a level not reached since May 2015.

The UK aerospace industry is the fourth largest in the world, while Rolls-Royce is the world’s second-largest manufacturer of defence aero engines. Rolls-Royce faces stiff competition on an international scale, with America’s General Electric being one of its major competitors.

Rolls-Royce has had problems with its Trent 1000 engines manufactured for Boeings 787 Dreamliner planes, with turbine blades cracking and corroding, and other issues with compressors. This has forced airlines to ground the aircraft for checks to be carried out. With the busy summer holiday season beginning, some airlines have had to resort to leasing planes to make up the shortfall.

The problems with the Trent 1000 engines cut across the business model employed by Rolls-Royce. As Rolls-Royce has never made a profit on the sale of engines, it is forced to rely on long-term maintenance contracts to generate returns. It has poured massive resources into building reliable, highly technically efficient aero engines with the prospect of being able to earn an ongoing regular income through the monitoring and maintenance.

The *Financial Times* noted that the restructuring is aimed at facilitating this strategy by “bringing down the costs of engine production and servicing by eliminating unnecessary bureaucracy.”

An Institution of Mechanical Engineers (IMechE) news article of November 14, 2017, featured an analysis by IMechE’s vice president, Ian Joesbury, explaining how the aerospace industry has become much more complex and competitive. He explained: “You’ve got to be leading edge in terms of your technology and really strong in terms of cost base and ability to deliver high quality, on time and in a cost-effective way.”

The article continued: “Another major change was the increasing focus on the aftermarket, with companies increasingly selling maintenance support as well as parts. Rolls-Royce was one of the first companies to explore this business model—rather than selling engines, its sells ‘time on wing’, with customers paying for the number of hours engines are actually operational.”

Joesbury added: “A lot of profit sits in the aftermarket, and a number of players are going aggressively after that. … [The] whole market has become much more dynamic. … It’s a much more complex environment now, which is much more challenging in terms of the margins that are available. …”

While not citing the problems with the Trent 1000 engines as part of the rationale behind the latest job cuts, it is obviously part of the mix.

Commenting on the record £4.6 billion loss announced by the company in 2017, the BBC reported in February 2017, “Many of Rolls-Royce’s older engines are being taken out service faster than its new engines are being taken up by newer planes. … [T]he newer engines will take longer to make a profit as the costs of development, testing and launch overshadow the early years of an engine’s life. The real gravy is the money to service them, which comes rolling in for many years at little additional cost. With several new engines launched recently those days are some way off.”