

# Evaluation Scheme

<b>Presentation</b>		
<b>DIMENSION</b>	<b>COMMENTS</b>	<b>POINTS</b>
Technique/ Mechanics		5
Clarity		5
Support		5
Appearance		5
<b>Executive Summary</b>		<b>20</b>
<b>DIMENSION</b>	<b>COMMENTS</b>	<b>POINTS</b>
Content	Provide more of the conclusions for each section.	4
Succinctness		4
Independence		4
Impact/ Authority		4
<b>Introduction</b>		<b>16</b>
<b>DIMENSION</b>	<b>COMMENTS</b>	<b>POINTS</b>
Description/ History		5
Rationale/ Context		5
Limitations/ Foreshadowing		5
Organization		5
<b>Mandate</b>		<b>20</b>
<b>DIMENSION</b>	<b>COMMENTS</b>	<b>POINTS</b>
Description		5
Analysis		5
Use of Concepts		5
Conclusions		5
<b>External Analysis</b>		<b>20</b>
<b>DIMENSION</b>	<b>COMMENTS</b>	<b>POINTS</b>
Description		5
Analysis		5
Use of Concepts		5
Conclusions		5
<b>Internal Analysis</b>		<b>20</b>
<b>DIMENSION</b>	<b>COMMENTS</b>	<b>POINTS</b>
Description	identify the strengths and weaknesses.	4
Analysis		4
Use of Concepts	Use the building blocks.	4
Conclusions		4

<b>Strategic Options</b>		<b>16</b>
<b>DIMENSION</b>	<b>COMMENTS</b>	<b>POINTS</b>
Description		5
Analysis		5
Use of Concepts		5
Conclusions		5
<b>Recommendations &amp; Implementation</b>		<b>20</b>
<b>DIMENSION</b>	<b>COMMENTS</b>	<b>POINTS</b>
Description	Develop this section. Provide more commentary on milestones, risks and deliverables.	4
Analysis		4
Use of Concepts		3
Conclusions		4
		<b>15</b>

<b>Grade Calculation - Assignment 3</b>			
<b>SECTION</b>	<b>POINTS / 10</b>	<b>WEIGHT</b>	<b>MARK</b>
Presentation	10.00	10%	10.00%
Executive Summary	8.00	5%	4.00%
Introduction	10.00	5%	5.00%
Mandate	10.00	10%	10.00%
External Analysis	10.00	15%	15.00%
Internal Analysis	8.00	15%	12.00%
Strategic Options	10.00	20%	20.00%
Recommendations	7.50	20%	15.00%
<b>Overall Mark</b>		<b>100%</b>	<b>91.00%</b>

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# *Rio Tinto Group*

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## *ADMN 404: Assignment 3*

## Executive Summary

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Rio Tinto is one of the world's largest mining companies, with operations in more than 40 countries, who produces a range of natural resources, including aluminium, copper, diamonds and minerals, energy, and iron ore. Established in 1873, with contributions from British and European investors, to reopen ancient copper mines, the Rio Tinto company has long since been a world leader in the production of natural resources.

The company achieved its success early in its history, by understanding the value that can be gained through a diversified product line, and global expansion. The company understands the importance of long-term land investments, and the benefits of consolidation.

Despite its past successes, the future growth potential of Rio Tinto is unstable. Given recent global economic circumstances, combined with increased pressures from regulatory bodies, all global companies are facing uncertain economic times. Given the relatively matured state of the industry, and that the majority of growth opportunities are originating in developing economies, there is pressure to expand to these markets. However, with limited liquidity, and a reduced credit condition, Rio Tinto needs a strategy that will help it to achieve growth while dealing with these risks.

One strategy would be for Rio Tinto to consider a divestment strategy where it would liquidate its less profitable businesses, and reinvest in more profitable businesses, while strengthening its balance sheet. A second option would be for Rio Tinto to adopt a global standardization strategy, where it could focus on pursuing low-cost alternatives on a global scale, thereby increasing profit margins.

While the above strategies would help Rio Tinto achieve its desired goal of shareholder growth, the recommended strategy is for Rio Tinto to adopt a market development strategy where it would increase its market share, with existing product lines, in emerging economies.

## Introduction

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The Rio Tinto Group is a leading company in the mining, development and exploration of natural resources. However, recent global economic instability and pressures from regulatory bodies have left industry participants facing uncertain growth potential in the future.

This report reviews Rio Tinto's history, and looks at the industry within which it operates, to arrive at three strategic choices that Rio Tinto could consider pursuing to achieve its goal. It begins with a history of the company, followed by a look at the industry and the competitive forces and macro environmental factors that are affecting it. It then examines the internal environment of the company and reviews the strengths and weaknesses present. Finally, three separate strategies are presented and a recommendation of the most suitable strategy is made.

The information contained in this report is largely based on 2010 information, specifically, Rio Tinto's 2010 Annual report, and the 2010 Annual Review. It is important to note that the 2011 Annual reports have not yet been released, and therefore important measures may have been taken in the past year to improve the company's performance, to which I would not be aware of. Prior to acting on any of the recommendations in this report it is advised that this new information be considered. The 2011 Financial results will be announced on February 9, 2012.

## Company Overview

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The Rio Tinto Company was formed in 1873, when British and European investors purchased an ancient Spanish copper mine for 3 680 000 pounds from the Spanish government. It was registered as a public company on March 29, 1873. In 1925, the Rio Tinto Company, after having success as one of the world's leading copper producers set out to diversify the company's operations outside of Spain. With efforts from Sir Auckland Campbell-Gedes joint ventured where formed, diversifying Rio Tinto's product portfolio, and eventually leading to the divestment of the Spain mining operations. In 1954, two thirds of the Spanish business was sold to fund the development of land in Africa, Canada, and Australia, which would lead to the buyout of several small local mines. Many strategic decisions would be made from 1966 to 1998, beginning with smaller mergers, and leading to a re-concentration of the company's efforts to focus on the mining industry. In 1989, Rio Tinto Acquired BP minerals, a crucial decision that would see Rio Tinto transition from a financial conglomerate to a global mining company. In 2000, Rio Tinto would own Comalco outright, securing its position in the Aluminium industry. In 1995, the separate entities were restructured and renamed to become a single company operating as Rio Tinto.

Today, Rio Tinto is a dual listed company, trading on both the London stock exchange and the Australian stock exchange, and is a leader in Global mining. After a period of acquisitions and partnerships, Rio Tinto is now in a position of trying to strengthen its balance sheet, so that it can take advantage of expected increases in demand for their products.

Rio Tinto's major competitors are BHP Billiton, who is currently first in terms of market capitalization and Anglo American. Both companies operate in the basic materials sector of the industrial metals and materials industry, and they are all fighting for increased market share.

Rio Tinto's future success will depend on its ability to strengthen its balance sheet, so that it can take advantage of long-term growth opportunities in developing economies.

## Product Groups

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Today, Rio Tinto operates across five product groups. They are as follows

- **Aluminium:** Rio Tinto is a global leader in this area of the industry. In 2010, revenue from this product group totals \$15 206 million dollars, and increase of about \$200 million over 2009 results. Also worth noting is that operating cash flow increased and capital expenditures decreased over the year. The aluminium product group is expected to continue to grow as the industry continues to recover over the next several years. It contributes 6% to group underlying earnings.
- **Copper:** Rio Tinto's leading technology will help to position the Rio Tinto as a leading supplier in the copper segment. In 2010 revenues increased by \$1 576 million dollars. Operating cash flow also increased during the same period. The copper product group is well positioned to capitalize on growth in emerging markets, especially in China and India. It contributes 18% to group underlying earnings.
- **Diamonds and Minerals:** Rio Tinto is a world leader in the diamonds and mineral sector of the industry. In 2010 revenues increased by approximately \$ 400 million. Operating cash flow was down by \$18 million. It should be noted that during 2010, underlying earnings were also down. Even with reduced earnings, Rio Tinto believes that the outlook for the diamond industry is favourable. It contributes 2% to group underlying earnings.

- Energy: Rio Tinto is the leading supplier of energy sources to Asian markets, and serves electrical power utilities worldwide. In 2010 revenues increased by \$783 million. Operating cash flow also increased by almost \$400 million. Through its operations around the world, Rio Tinto is well positioned to take advantage of the continued strong demand for energy sources. It contributes 10% to group underlying earnings.
- Iron Ore: Rio Tinto is the second largest producer, after a decade of expansion in Australia and Canada. In 2010, Revenue in this sector almost doubled, increasing by \$11 426 million. Cash flow also experienced similar growth rates. Rio Tinto believes that it is well positioned for continued growth by driving performance results. It contributes 73% to group underlying earnings.

## Mandate

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### Core Purpose

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Since 1873, when the Rio Tinto Company was formed to reopen ancient copper mines, its goal was to find and produce natural resources, such as copper and zinc. Today, the Rio Tinto Group's mission is "to maximize total shareholder return by substantially finding, developing, mining and processing natural resources." ([http://www.riotinto.com/documents/The\\_way\\_we\\_work.pdf](http://www.riotinto.com/documents/The_way_we_work.pdf))

### Values

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The Rio Tinto Group's core purpose underlies the operations of the company, and influences its values, which are accountability, respect, teamwork and integrity. These values guide the company's actions

and provide a guideline to which employees, from the board of directors to the miners, should conduct themselves.

These values are supported by the company's actions and reinforced throughout the company's framework and major goals. As stated in Rio Tinto's 2010 Overview, "our values underpin the way we manage the economic, social, and environmental effects of our operations, and how we govern our business." ([http://www.riotinto.com/aboutus/19602\\_overivew.asp](http://www.riotinto.com/aboutus/19602_overivew.asp))

## Vision

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The Rio Tinto Group's core purpose and values have helped to define the company's vision, which is to be a leader in the areas that it operates. Specifically, Rio Tinto Group states that it strives, "to be a global mining leader, by achieving sector leadership, including operational excellence, sustainable development, exploration and innovation." ([http://www.riotinto.com/aboutus/19602\\_strategy.asp](http://www.riotinto.com/aboutus/19602_strategy.asp))

## Stakeholders

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The major stakeholders that the Rio Tinto Group must consider are its employees, its customers, and its stakeholders. Employees are the driving force of the organization. A reliable employee base is the foundation to ensure that the company's vision becomes a reality. These employees expect to have a safe working environment, and be compensated fairly for the work that they do. Rio Tinto understands the importance of their employees, and attempts to "recruit, develop, and retain talented and

motivated employees to deliver on (their) business strategy.”

([http://www.riotinto.com/aboutus/19602\\_strategy.asp](http://www.riotinto.com/aboutus/19602_strategy.asp))

Customers are the second driving force for the business operations. Since Rio Tinto Groups customer are typically large industrial companies, they affect demand and thus production on a relatively large scale. These customers expect to receive a high quality metals and minerals at a fair market price.

The third major stakeholder for Rio Tinto Group is its shareholders, which is also a large part of the company’s core purpose. Shareholders invest in the company with the expectation to earn a return on their investment, usually in the way of increased value. Rio Tinto’s decisions will affect shareholder returns, and therefore they must consider the impact that these decisions will make on that return.

Secondary stakeholders must also be considered. These include the communities in which Rio Tinto has operations, governments that have an impact and who influence our operations, industry bodies where there is a mutual advantage to share knowledge and experiences, and international bodies, where they promote transparency and good corporate governance.



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## External Analysis

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### Competitive Forces

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The basic materials segment of the industrial metals and materials industry is characterized by a relatively competitive environment. At a global level, Rio Tinto is among the leaders in the industry, second to BHP Billiton in terms of market capitalization and more than double the size of its next competitors, and all of them competing for valuable, mineral rich property and major construction contracts throughout the world.

The degree of competition within the basic metals segment of the industry is in large part the result of the fact that the companies operate in a relatively consolidated market. There are only a few large companies that tend to dominate the world's market share. Also a factor in the level of competition is the low threat of new competitors entering the global market, at least in the short term. This is because of the large fixed costs that are associated with mining and producing metals.

The lack of a reasonable substitute and constant demand for basic metals makes this a profitable industry. As stated in Rio Tinto's 2010 financial statements, "few people around the world can spend a day without using a metal or mineral in some way." (p.6, [http://www.riotinto.com/documents/Investors/RioTinto\\_Annual\\_report\\_2010.pdf](http://www.riotinto.com/documents/Investors/RioTinto_Annual_report_2010.pdf)) With the increased demand for metals from China and India, this industry is well positioned for substantial growth. Also, since metals are a commodity, their price is affected by supply and demand; increased demand will drive up prices, allowing existing firms to see substantial revenue increases.

It is worth noting that due to the heavy nature of the products, shipping costs can be quite substantial, therefore companies with international operations, who can take advantage of proximity to local infrastructure, will be able to keep costs down. Rio Tinto, with operations in 6 continents is well positioned to keep transportation costs low, as it strives to become the leader in the global market. It is also worth noting that differentiation, except in terms of quality, is difficult given the nature of the raw goods. (Diamonds are an exception, as there has been a growing market for 'Canadian Diamonds,' although this sector only contributes 2% to group earnings.)

The above information suggests that the basic materials sector of the industrial metals and materials industry is relatively attractive at this time. Barriers to entry are high and the threat of a substitute is low. And, although differentiation is difficult, the growing demand from Asian markets, and developing countries will lead to plenty of opportunity for growth within this sector.

## Macro environment

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The future of Rio Tinto and other competitors in the basic materials segment of the industrial metals and materials industry depends largely on macro environmental factors, and more specifically, on new innovations for safer and less environmentally damaging processes, as well as on emerging market.

Currently, with a global focus on people's damaging effects on the environment, new legislations are being presented to help to reduce our greenhouse emissions. Even if some countries are not as stringent with their environmental regulations, there is plenty of pressure from many developed countries to be more aware. Because of the permits and physical Land required to develop and mine, community and government buy-in are crucial to the success of the mine's operations.



Also crucial to the success of the mines are the employees and their level of engagement. Given the nature of mining, and the

natural risks that the industry possesses, it is often difficult to attract qualified, engaged employees, especially since the risk of physical injury are so high. Mining companies have an opportunity to develop safer mining practices, and more efficient mining technology.

Also central to the success of companies in this segment, is demand for raw materials. As more areas of the world begin to develop, infrastructure needs will increase, and so too will demand for raw materials. One major threat in the Basic materials segment of the industry, and in large part the response to existing environmental concerns, and employee safety issues, is governmental regulation and political issues. This can affect the development and exploration of new and existing mine sites, and negatively impact profits.

An even bigger threat that most industries in the global market are facing, is the threat caused by the current economic situation. With increased uneasiness in the global market, infrastructure projects could be put on hold in major developing countries, which would affect the demand levels for commodities, and impact the unit prices. These volatile commodity prices would make it difficult to forecast future results, and could affect growth measures as well.

Only with careful planning and a well thought out strategy can these threats and opportunities be addressed and stable growth within the basic materials segment of the industrial material and metals industry is achieved.

## Internal Analysis

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### Strengths

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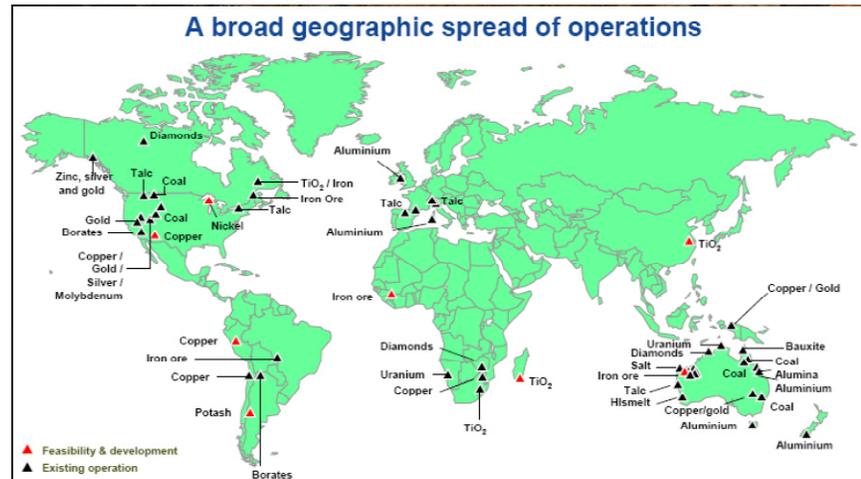
One of the major strengths that are present in the Rio Tinto Group is the fact that it has a strong market position. In terms of market capitalization, Rio Tinto is the second in rankings among the competitors in the industry within which it competes. Global leadership within the market in terms of size presents several benefits, including financial strength, integrated services, market intelligence, local expertise, and global reach.

Top Industrial Metals & Minerals Companies by Market Cap						
Company	Symbol	Price	Change	Market Cap	P/E	
<a href="#">BHP Billiton plc.</a>	<a href="#">BLT.L</a>	2,175.00	↓ 1.11%	115.77B	509.49	
<a href="#">Rio Tinto plc.</a>	<a href="#">RIO.L</a>	3,810.00	↓ 2.13%	73.43B	467.08	
<a href="#">Anglo American plc.</a>	<a href="#">AAL.L</a>	2,698.50	↓ 1.41%	32.62B	403.48	
<a href="#">Xstrata plc.</a>	<a href="#">XTA.L</a>	1,104.79	↓ 2.19%	32.36B	617.55	
<a href="#">Antofagasta plc.</a>	<a href="#">ANTO.L</a>	1,348.00	↓ 3.02%	13.29B	1,025.10	
<a href="#">Rio Tinto plc.</a>	<a href="#">RIO</a>	59.99	↓ 1.02%	115.62B	7.35	

<http://ca.finance.yahoo.com/q/in?s=RIO>

Another major strength of Rio Tinto Group is the fact that it has a wide product range. Rio Tinto finds, develops, mines, and processes five product groups, including aluminium, copper, diamonds and minerals, energy, and iron ore in locations around the world. . This puts Rio Tinto into a position of being able to capitalize on

fluctuations in market demand for a specific commodity. Rio Tinto believes that “few people in the world can spend a day without using a metal or mineral in some way.”



<http://www.stjohns.edu/media/3/f2a0fc660ccb47cbbd304089d7d620b2.pdf>

(Rio Tinto 2010 Annual Report, p. 7) This diversity in products and relatively constant global need has helped Rio Tinto to achieve its global market position.

Finally, Rio Tinto’s commitment for sustainable development is a strength that will help to position the company as a global sector leader. Rio Tinto is aware that sustainable development is key to their successes. Specifically, Rio Tinto believes that “acting responsibly will result in long-term business benefits such as lowering risks, reducing costs, creating options and leveraging reputation.”

[http://www.riotinto.com/shareholders/12323\\_sustainable\\_development.asp](http://www.riotinto.com/shareholders/12323_sustainable_development.asp) Rio Tinto’s sustainable development is fundamental to its reputation and has helped the country to secure land for development and exploration. Within its sustainable development policy Rio Tinto sets out specific guidelines to help maintain a good reputation. These include environmental initiatives to help minimize the effects that Rio Tinto operations has on the environment. It also includes social wellbeing initiatives to ensure that employee wellbeing is at the fore front of decision making strategies. Economic

prosperity is also addressed to ensure that the communities that Rio Tinto operates in receive economic value through those operations. These initiatives have helped Rio Tinto secure land that could be explored and mined with long-term growth results.

## Weaknesses

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In addition to these strengths that will help Rio Tinto to achieve its core purpose, there are also some weaknesses that management must address. One of these weaknesses is Rio Tinto's recent downgrade in its credit ratings. Although it has made progress to improve its downgrade, Rio Tinto will lose market value if the public feels that they are not able to meet their financial obligations. This can affect their opportunities to expand, and therefore will have a negative impact on their desire to achieve Global sector leadership.

Another weakness, and also somewhat related to their credit rating is Rio Tinto's limited liquidity position. Although Rio Tinto reported record earnings in their 2010 financial statements, the majority of their assets are on-current assets, meaning that they would not be easy to liquidate. (Inventory, equipment, etc.) If the global economy does not continue to recover the way that Rio Tinto expects it to, the company could be put in a difficult financial position.

Finally, much of the growth estimates that Rio Tinto is using to help them achieve their core purpose, is based on the fact that the recovery of developed economies continues to be slow, at best, and relatively unstable, and is mainly china and emerging economies that is driving demand. In fact, iron ore is one of the minerals where there has been a surge in demand for from these markets. This heavy reliance on emerging markets could present issues if the unstable global economic situation continues.

## Strategic Choices

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The Rio Tinto Group mines and processes commodities across five product groups which include aluminium, copper, diamonds and minerals, energy, and iron ore. Their core purpose is to maximise total shareholder return by substantially finding, developing, mining, and processing natural resources.

As such, there are at least three different strategies that Rio Tinto can follow. First, it can aim to penetrate current markets and increase market share. Second, it can follow a strategy of global standardization through the development of long-term mines and centralized departments. Third, it can follow a divestment strategy whereby they sell off their less profitable businesses, and reinvest the proceeds into more profitable businesses.

## Market Development Strategy

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Given the relatively mature state of the industry within which Rio Tinto operates, a market development strategy, which is defined as a strategy where Rio Tinto markets its commodities to new markets, will help to achieve Rio Tinto's core purpose of increasing shareholder value. Rio Tinto has already begun to adopt this strategy, especially within the Chinese and other Asian markets, where there has been a substantial increase in demand for Rio Tinto's products, which is expected to continue over the long-term. Taking this a step further would see Rio

<b>MARKET DEVELOPMENT</b>
<b>ARENAS/MARKETS</b>
chinese/Asian markets
other developing markets
iron ore and copper businesses
<b>DIFFERENTIATORS</b>
Price
local production
<b>VEHICLES</b>
restructuring
Acquisitions
<b>STAGING</b>
research small local mines
acquisitions of promising, local businesses
<b>ECONOMIC MODEL</b>
Increased presence in local market
increased market share
lower development costs
<b>PROS</b>
long-term potential for growth
local community benefits
<b>CONS</b>
expensive to acquire existing businesses
restructuring may be necessary

Tinto exploring deposit rich land in other developing regions where growth is likely to occur.

By developing land in new markets and increasing operational presence in these markets, local economies would be impacted, as general labourers would be locally hired, and output is sold back to local communities. Prices would also remain low, because transportation expenses would remain lower. Because of the development costs associated with starting a new mine, the best way for Rio Tinto to expand their presence in the global market, and therefor increase market share, is to explore the possibility of acquiring small to medium sized firms, who do not have the capability of taking advantage of economies of scales, but who have the potential for long term development growth.

These acquisitions would result in increased market share, higher sales volumes, lower development and transportation costs, and therefore higher returns and increased shareholder growth. It would be important for Rio Tinto to ensure that local regulatory requirements are being met, which could require substantial costs. It could also be very expensive to acquire existing businesses as well, therefor, the benefits would have to outweigh the costs in order for this to be effective.

## Global Standardization

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Another strategy that Rio Tinto could follow, given its global operations, would be one of global standardization. This business model, based on a low-cost structure, would help to increase profit margins and keep production costs lower.

<b>GLOBAL STANDARDIZATION</b>
<b>ARENAS/MARKETS</b>
all mining operations
<b>DIFFERENTIATORS</b>
product reliability
lower costs
<b>VEHICLES</b>
Internal Development
restructuring
<b>STAGING</b>
develop new technologies
standard processes
<b>ECONOMIC LOGIC</b>
lower production costs/higher profit potential
centralized planning/quicker response
<b>PROS</b>
decreased production costs
increased profitability
<b>CONS</b>
costly to develop new processes
employee hostility with restructure

A global standardization strategy would need to be rolled out across all business units, with each of the five product groups getting a standardized set of processes, based on their unique production requirements. By standardizing the production methods, through internal development, to make mining more efficient and effective, Rio Tinto could easily respond to fluctuation in demand, while at the same time keeping costs low. Another aspect of this strategy would be to centralize the planning and marketing processes, thereby reducing repetitiveness across business units.

This strategy may require Rio Tinto to invest in new process development, to try and simplify the production process, and improve on current technologies. Rio Tinto’s reputation for a high quality product, combined with more efficient mining processes, and more effective operations will lead to reduced overall costs, and increased shareholder value.

**Divestment Strategy**

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A third strategy that Rio Tinto could follow, given its relatively broad range of product categories, would be to follow a divestment strategy. According to Hill and Jones, this strategy makes sense during times of a declining industry and “rests on the idea that a company can recover most of its investment in an underperforming business by selling it.” (Hill and Jones, p.224) Now, it should be noted that the commodities

<b>DIVESTMENT STRATEGY</b>
<b>ARENAS/MARKETS</b>
diamond business
<b>DIFFERENTIATOR</b>
refocus expenditures on profitable business
<b>VEHICLES</b>
sell ownership in operations of jt ventures
<b>STAGING</b>
least productive mine first
<b>ECONOMIC LOGIC</b>
freed up cash flow can be used else-where
strengthen balance sheet
<b>PROS</b>
increased cash flow
greater growth opp. In other businesses
<b>CONS</b>
Lost benefit of diversified product range

that are produced by the Rio Tinto Group are not necessarily classified in an industry segment that is declining, but it could be better use of the company’s funds to use the funds that are tied up in

businesses that generate low profits, and reinvest them into businesses that are yielding good, long-term profits.

This is particularly true in Rio Tinto's diamond business, which contributes only 2% to group underlying earnings. Rio Tinto could look at liquidating its share in the diamond mines where it operates, and reinvest those funds into more profitable businesses, such as the iron ore and copper businesses, which contribute 73% and 18%, respectively, to group underlying earnings.

The money earned from liquidating the less profitable businesses could be reinvested into businesses where growth is likely to continue to occur over the long-term. It could be used to fund development projects, and improve efficiency, reduce overall operating costs, and increase market share, thereby increasing shareholder value.

Given the uncertain global economy, and increased pressures from regulatory bodies, a clear direction is crucial for Rio Tinto to achieve its goal of maximum shareholder return through long-term investments in mines. Only a clear strategy will position Rio Tinto to capitalize on current and future growth in developing markets.

## **Recommendation and Implementation**

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It is recommended that Rio Tinto adopt a market development strategy, where it can capitalize on new growth in areas with relative proximity to mineral rich deposits, which have long-term operational potential. With the surge in demand coming from Asian markets, that is expected to continue for the long term, a market development strategy will allow Rio Tinto to capitalize on growing demand. This

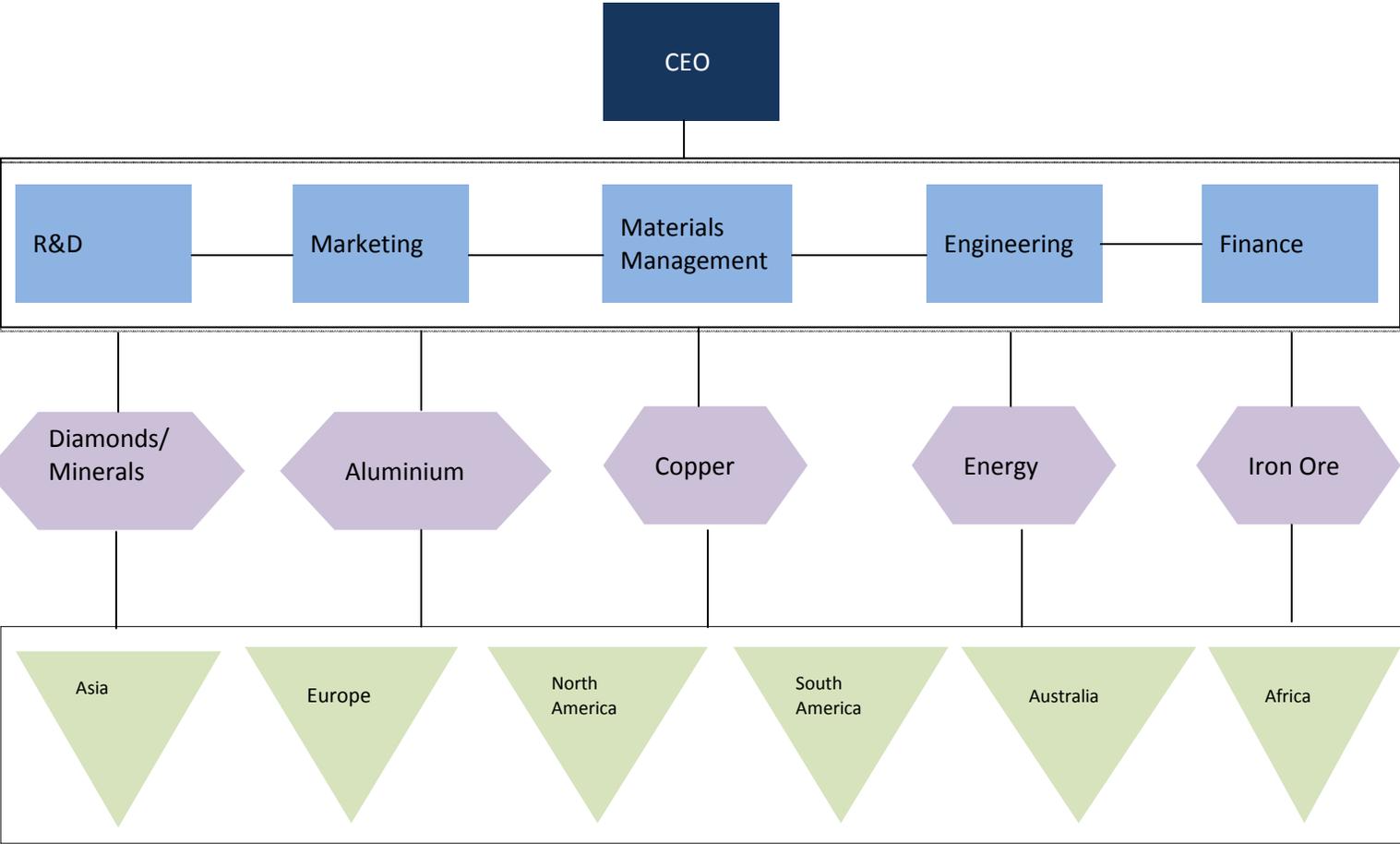
strategy would leverage Rio Tinto's established reputation, and sustainability initiatives to increase market share, and therefore increase shareholder growth.

To implement this successfully, a product structure would make sense. Each of the five product categories; aluminium, copper, diamonds and minerals, energy, and iron ore, would remain as it is, as separate operating units. This would continue to offer the benefits of specialization that are uniquely related to these products. Support functions, such as marketing, R&D, materials management, engineering, and finance, would be centralized, with each area sub-dividing to serve a specific product group. This would allow the different support functions to effectively specialize and become experts in their particular field, and would also allow shared knowledge to flow within the department. The executive product managers would work closely with support function managers to ensure that the overall goals of Rio Tinto would be achieved.

In general, this type of structure would create an environment where individual product groups' needs are satisfied, and knowledge can flow through divisions, giving Rio Tinto the competitive advantage of increased market and production expertise, over its competitors.

To deal with the issues relating to global locations, each of the product groups would be sub-divided into regional groups, so that local issues can be addressed throughout the implementation of the company's objectives. This will also help the company be more responsive to local needs, both culturally and regulatory. It will also help to give the operations local identification, which can be a significant benefit in countries that are eager to promote local businesses.

In this structure, Rio Tinto would have each of their businesses divided by product type, and then by geographic region. Product executives would work closely with regional managers, and central support managers to deliver on the company’s goal of shareholder growth. The decisions to develop or expand through acquisitions would occur at the support function level, and would be carried out at the product/geographic level.



To adopt this structure, Rio Tinto would have to slightly reorganize their current business structure, to make the flow of information more effective, and less repetitive. Currently, each product group has its own marketing functions, and relies on central exploration and development efforts. Under the new model, all support functions, including marketing, would be centralized.

Another challenge that Rio Tinto would face, in addition to restructuring challenges, is that of talent recruitment. Rio Tinto will need to have a team of highly qualified and cross-functional members who share the same vision of the company as a whole, in order for the flow of information to be delivered effectively. One way to motivate the employees to have a desire for the company to be successful is through profit sharing plans, where their efforts are rewarded through increased company returns.

Another option that could be used to motivate employees is employee ownership plans. When employees at all levels know that their decisions will affect over all company performance, they are more likely to look for solutions that will fit with the company's vision, and deliver strong market growth.

As a measurement to see how effective their strategy has been implemented, Rio Tinto could look at their current financial statements. The logic behind this theory is that by centralizing support functions, repetitiveness and costs are reduced. Also, decisions can be made more effectively, with an evaluation of how it fits into the company's overall growth strategy, and then implemented more quickly. The end result should be higher market growth, as new opportunities are explored in a more efficient manner, and costs are reduced.

# Appendix

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## SWOT

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### Strengths:

- Global Market Leader
- Economies of scale
- Financial leverage
- Size and cost advantage opportunities
- Technology benefits
- International reach
- Diversified miner (product diversity)(Mines diamonds and minerals, energy, Iron ore, aluminium, and copper)
- Strong market position in many of its competing markets
- Efficient use of resources
- Strong growth potential

### Weaknesses:

- Downgrade in credit rating
  - Could affect access to increased capital required for expansion
- Limited liquidity position
  - Could result in repayment issues
- Challenging health and safety measures

- Declining demand in existing market for iron ore products

#### Opportunities:

- International expansion of mining operations
- Increased infrastructure spending
- Emerging markets. i.e. China, and other Asian markets
- Strategic partnerships
- New investments and innovations to improve efficiency

#### Threats

- Government regulations and taxes
- Political risks could hurt growth potential
- Blood diamonds
- Volatile commodity prices
- Unstable global economy could slow/stall growth potential
- increased pressures from non-governmental agencies
- foreign exchange risk

## Blood Diamonds

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Blood diamonds are an issue that is currently facing the diamond sector of the Metal and mineral industries. Blood diamonds refer to diamonds that are mined in war zones, where the proceeds are used to finance insurgence. Often these mines are operated in unethical manners as well, making it even more of an unattractive investment option for the general public. In an effort to control the use of

blood diamonds, and the funding that result from this, the United Nations banned the purchase of diamonds from areas known to be using the proceeds to finance acts of war. Today, it is estimated that the sale of blood diamonds has been reduced to 1% of total diamond sales.

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