Nucor Steel Industry Strategy and Financial Performance

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Introduction

Nucor Corporation is a steel manufacturing company that processes and recycles steel. Three segments in which this company operates are raw materials, steel mills, and steel products. In this case study analysis, the driving forces of this industry will be discussed, along with their impact on the competitive structure. The generic strategies of business will be implemented in this company along with a SWOT analysis. In the end, the performance of this company will be assessed with some recommendations.

Discussion

Driving forces in industry and competitive structure

As this company provides steel worldwide, globalization has a big impact on its operations. This is the main driver to improve the workings of Nucor for moving to the international market. The second driving force is the competition among the major firms. This is a large industry, and there are many big players working here who provide material internationally. When these companies move into the global market, this boosts competition and drives the company to work better. Another driver is innovation in the steel manufacturing industry. Many new processes have been introduced that allow this company to work in multiple segments and product categories. It has a sound system of research that enables it to establish new ways of processing steel. It also helps in making steel at a low cost. It has efficient plans and high-quality production processes that help it survive in the steel industry.

These dynamics show that having a high-cost system will make it difficult for any company to remain competitive. Nucor has processes that incur low costs, giving it a favorable competitive position in the industry. When there is competition in the industry, it motivates companies to work hard and find new ways of cutting costs. However, the structure of the competition has a different impact on every company, depending on its arrangement. As Nucor is a low-cost producer, its position in the industry is strengthened. The competitive structure may seem unattractive to some competitors, but it is in favor of the company under discussion.

The strategy of Nucor and competitive advantage

Nucor focuses on a cost leadership strategy. It has the ability to produce a low-cost product because of better technology and innovative processes. A huge portion of this company is dedicated to research and development. The management structure used in this company is lean, which is helpful in increasing the efficiency level of work.

The cost leadership strategy of this company is implemented by giving incentives to the workforce. The process used in operations is advanced. It has different procedures to measure the quality level so that every product is of high quality. Its environmental measures are also according to ISO 14001 standards. This strategy will help improve Nucor's market share. It experiences an increase in sales levels. The overall situation of this company is attractive, and it has bright prospects for future opportunities.

The underlying processes of this low-cost strategy are the value chain activities. As the same type of product is available from other competitors in the market, producing at a low cost allows the company to make better profits. Therefore, this is the best strategy, depending on the company's business, because it offers a generic product that requires a low-cost procedure to earn better profits in competition.

In North America, Nucor builds plants at low cost, and the efficient procedure keeps production costs at the lower end. Even when the economy is facing a downturn, it makes sufficient profits because of this cost leadership strategy. It enjoys this competitive advantage because it has built it over the years, and this helps it avail itself of all possible opportunities to cut costs in its procedures. This gives it an additional advantage in comparison with local competitors as well as foreign steelmakers.

SWOT analysis of Nucor and core competency

The main strength of Nucor is that it is leading in the industry in terms of innovation and lower production costs. The culture of this company motivates it to take calculated risks for higher returns. As it is large, this gives the company an advantage in terms of having more bargaining power with suppliers. It also focuses on minimizing pollution, which is a common issue in this industry.

Its weakness is that it is highly dependent on the domestic market situation of the USA. It is diversified on a limited scale, and though it provides products internationally, it does not have any worldwide presence.

It has the opportunity to enter the European and Asian markets. One possibility is to enter into a joint venture. It has a chance to integrate horizontally and improve its position in the market because this will contribute positively to its financial condition. It can also integrate vertically with nuclear plants so that energy production at a lower cost can reduce overall costs.

Nucor is threatened by the increasing cost of labor and raw materials. There are many foreign companies in the US market, including companies from China, that can increase competition in the industry through innovative processes.

The core competency of Nucor is its ability to produce at low cost while upholding the quality level. It has an effective supply chain, operations, and management system. It has the ability to act as a barrier to rivals and improve the level of productivity.

Financial performance during 2011-2015

From the financial ratios of Nucor, it is evident that the company improved its financial position from 2011 to 2015. The revenue of the company increased until 2014, while it faced a slight decline in 2015.

The earnings per share were also dynamic as they increased to 2.45 in 2011 and then to 2.11 in 2014, while they faced a downturn in 2015 with 0.25.

During this time, the financial leverage was highest in 2014, at a figure of 2.01, and then it came back to normal at 1.92 in 2015.

As the overall financial performance of the company has been good over the past multiple years, the slight decline in revenue during 2015 does not have a large impact on the profitability ratios except on return on equity, which dropped from 9.26 in 2014 to 4.71 in 2015. However, these financial measures showed better results in 2016 because of an increase in profit. Therefore, the strong financial condition helped the company overcome the decline in revenue during 2015.

Issues and Recommendations

In terms of issues, the matter that should be addressed as a priority is deciding on the expansion policy of the company. The management should build a balanced and appropriate strategy between acquiring other firms and building new plants. There is a need to make a proper assessment of economies of scale that will help in developing a standard at the production level. Another issue is whether it should expand more in the US market or move into foreign markets.

Recommendations include developing a strategy to cope with low-cost foreign competitors. The company can continue its strategy of making low-cost steel products, or it can also persuade the government to make laws to protect the interests of local steel manufacturers. It should be cautious when entering new markets, and this decision should be made after proper market research and assessment. If it is possible for the company to pursue an international market while sustaining its competitive advantage, it should certainly go for it (Thompson, 2018).

Works Cited

Thompson, Arthur A. *Crafting and Executing Strategy: The Quest for Competitive Advantage: Concepts and Cases*. , 2018.

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