

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 thing boosts the 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. They have a sound system of research that enables them to establish new ways of processing steel. It also helps in making steel at a low cost. They have efficient plans and high-quality production processes that help them to survive in the steel industry.

These dynamics show that having a high-cost system will make it difficult for any company to remain in the competition. Nucor has processes that incur low costs, making it a favorable competitive structure for the industry. When there is competition in the industry, it motivates the companies to work hard and bring 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 the favor of the company under discussion.

The strategy of Nucor and competitive advantage

Nucor focuses on cost leadership strategy. They have the ability to produce a low-cost product because of the 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. They have different procedures to measure the quality level so that every product is of high quality. Their environmental measures are also according to the ISO 14001 standards. This strategy will help improve Nucor's market share. They experience an increase in sales level. 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, so by producing at a low cost, they can make better profits. Therefore, this is the best strategy, depending on the company's business, because they offer a generic product that requires a low-cost procedure to earn better profits in competition.

In North America, Nucor makes plants at low cost, and the efficient procedure keeps production costs at the lower end. Even when the economy is facing a downturn, they make sufficient profits because of this cost leadership strategy. They enjoy this competitive advantage because they have built this over the years, and this helps them avail themselves of all the possible opportunities to cut costs in their procedures. This gives them an additional point in comparison to the 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 them to take calculated risks for higher returns. As it is large, this gives the company an advantage in terms of having more bargaining power from the suppliers. They also focus on minimizing pollution, which is a common issue in this industry.

Their weakness is that they are highly dependent on the domestic market situation of the USA. They are diversified on a limited scale, and though they provide products internationally, they do not have any worldwide presence.

They have the opportunity to enter the European and Asian markets. The possibility is to enter into a joint venture. They have a chance to integrate horizontally and improve their position in the market because it will contribute positively to their financial condition. They can also integrate vertically with the 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. Including China, there are many foreign companies in the US market that can increase the competition in an industry with innovative processes.

The core competency of Nucor is its ability to produce at low cost while upholding the quality level. They have an effective supply chain, operations, and management system. They have the ability to act as a blockage for 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 the 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 to overcome the decline in revenue during 2015.

Issues and Recommendations

In terms of issues, the thing that should be addressed as a priority is to decide about the expansion policy of the company. The management should build a balance and appropriate strategy between acquiring other firms and making new plants. There is a need to make a proper assessment of economies of scale that will help in developing a standard on a production level. Another issue is to see whether they 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. They 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.