

Carrying Out A Strategic Study for Lafarge to Recommend A New Strategic Direction for This Organisation Which Could Improve Its Competitive Advantage in the Construction Industry

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Abstract

Lafarge, which is one of the well-known organisations in the construction industry over the world, is selected in this research as an example of a construction organisation to carry out a strategic case study and produce a professional report, which will analyse the main challenges and opportunities facing this organisation, through using some strategic analysis tools such as, PESTLE framework, SWOT analysis, Porter's five forces model and BCG matrix, in order to investigate and recommend a new strategic direction for it, based on the findings that will be discovered. In addition, out of three strategic options, which will be identified and appraised, an option will be proposed to the company with justification to improve its competitive advantage over the construction industry.

Keywords: Lafarge, Strategic study, Competitive advantage, Strategic analysis tools

1. Introduction to the Organisation (Lafarge at a Glance)

1.1 Lafarge Group Profile

Lafarge, which was originally founded in France in 1833 as a limestone mining company, nowadays is the world leader in building materials. It presents in 64 countries worldwide and employs 68,000 people. The group today plays a key role in urbanisation by offering building solutions using cement, aggregates and concrete. It has 1,600 industrial sites around the world. (*Lafarge Group Profile*, n.d.). Figure 1 shows the group geographical portfolio:

Figure 1. Architecture of WOZIP

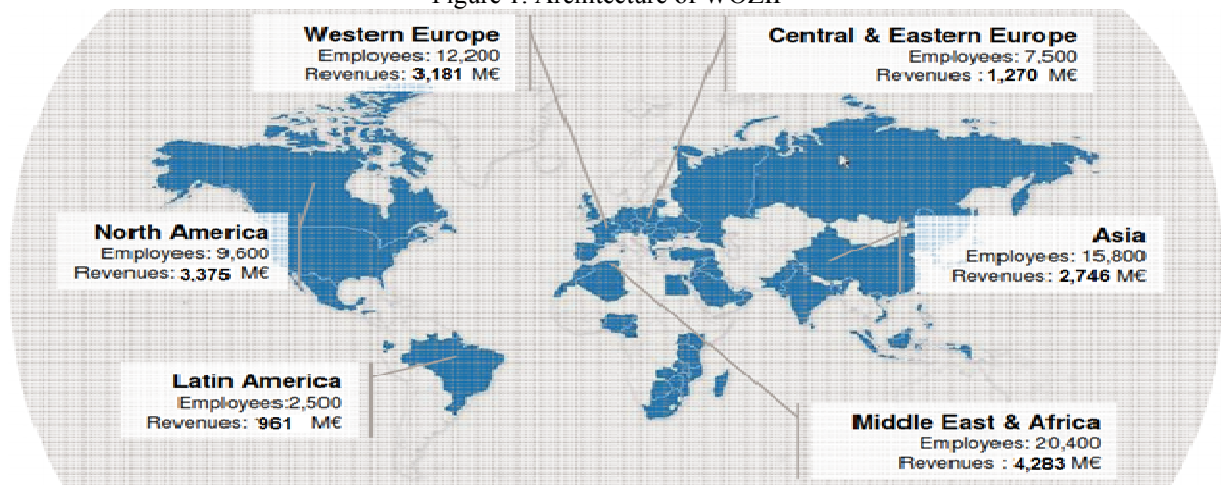


Figure 1. Lafarge Group's Geographical Portfolio

The figure below visualises the group's strategic distribution of assets to support market growth:

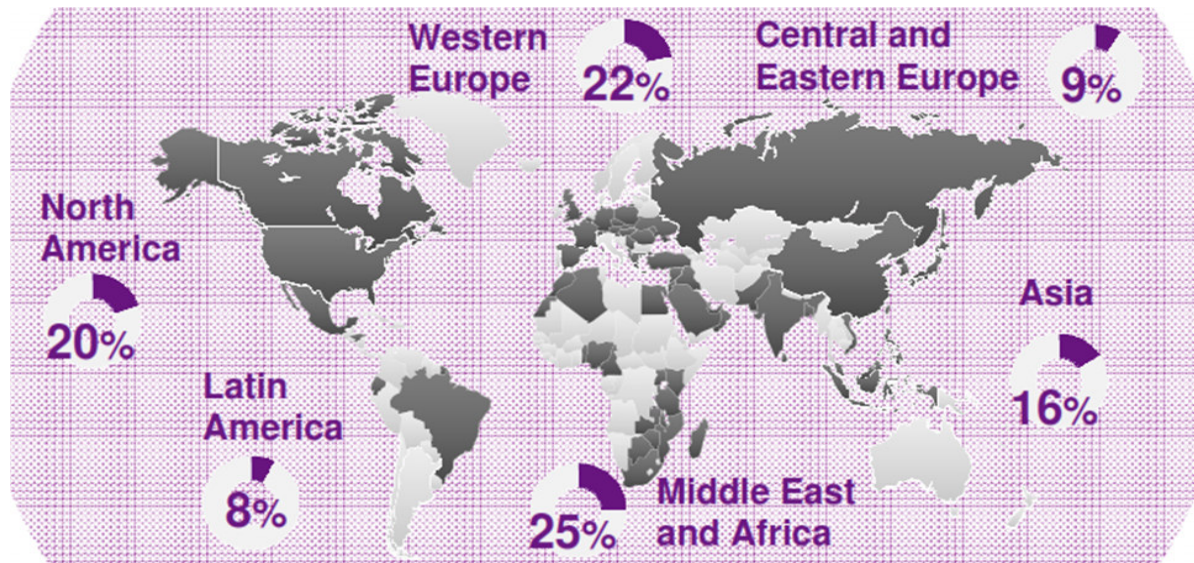


Figure 2: Lafarge Group's Global Strategic Distribution of Assets

The group worldwide presence and sales by business line in 2012 are shown in figures 3 and 4 respectively:

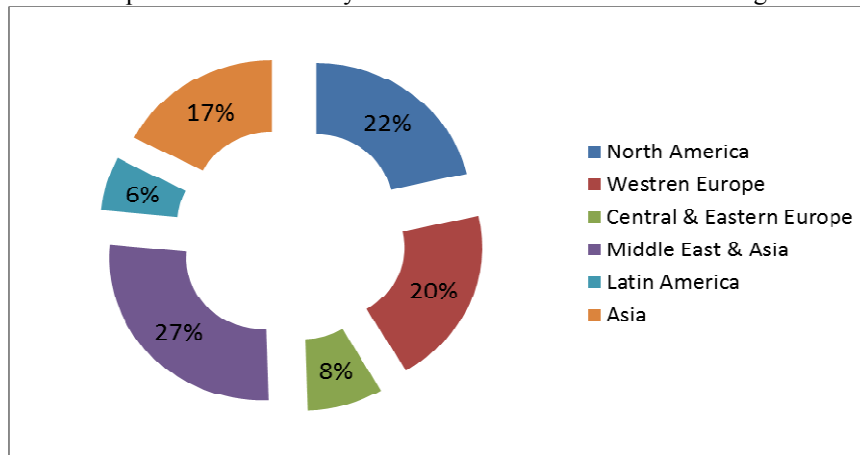


Figure 3: The Worldwide Presence of Lafarge Group through its Sales in

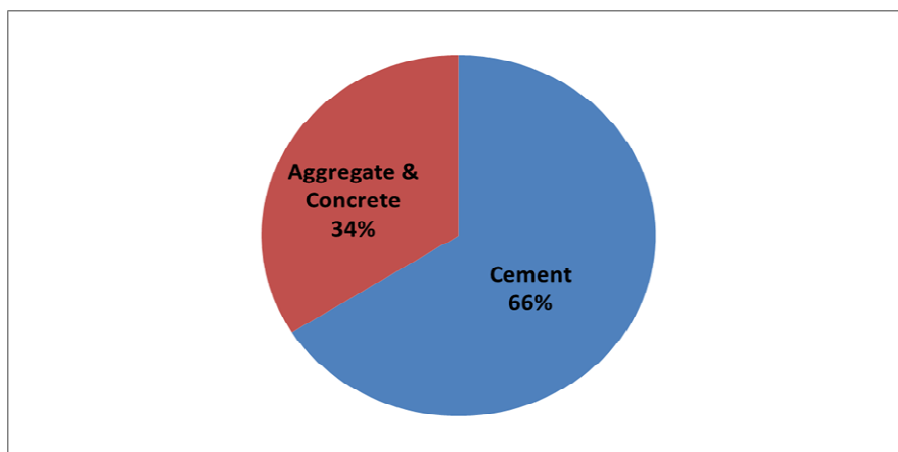


Figure 4: Lafarge Group Sales in 2012 by Business Line

1.2 Lafarge UK Profile

Lafarge UK today is the market leader in cement with around 40% market share, and it holds top ranking positions in aggregates and concrete. The Lafarge's two sister companies in Britain are Lafarge Cement UK and Lafarge Aggregates & Concrete UK (*Lafarge in the UK*, 2013).

1.2.1 Lafarge Cement UK

Lafarge UK is the only cement producer in Britain with nationwide coverage. Through its acquisition of Blue Circle cement plants in 2001, Lafarge Cement UK nowadays supplies nearly 50% of the market. Across the UK, it has 6 cement plants, and employs 1100 people (*Lafarge in the UK*, 2013). The company's annual profit reaches about £280 million a year (*Lafarge Cement UK Limited*, n.d.).

1.2.2 Lafarge Aggregates & Concrete UK

Through the acquisition of Redline in 1997, Lafarge has developed its business of aggregates, concrete, asphalt and contracting in the UK. It nowadays also provides waste management and recycling services. It has 200 sites and 2,000 employees across the UK, and its revenue reaches around £486 million a year (*Lafarge in the UK*, 2013).

2. The Organisation's Vision, Mission and Objectives

According to Johnson, Whittington, and Scholes (2011, p. 8), the organisation's goals, which draw on its vision, mission and objectives, are one of the three main themes that should be included in the organisation's strategy statement. Table 1 outlines Lafarge's vision, mission and objectives.

It is important to mention that Lafarge UK strategy is same as the group's strategy

Table 1: Lafarge's Vision, Mission, Objectives and Values

Lafarge's Vision 'What do we want to achieve?'
Lafarge's first aim is to be the clear industry leader in sustainability and a role model in the industry with their environmental and health and safety performance. Second, it aspires to be one of the UK's leading responsible businesses in building materials.
Lafarge's Mission 'What business are we in?'
Lafarge's mission and commitment is as follows: <ul style="list-style-type: none"> ▪ "Offering our customers the best in innovative materials and reliable products and services". ▪ "Reinforcing our position as the world leader for our suppliers, employees, customers and shareholders".
Lafarge's objectives 'What do we have to achieve in the coming period?'
Lafarge's objectives are as follows: <ul style="list-style-type: none"> ▪ "Lafarge seeks to strengthen its place as a world leader in building materials in terms of market share, innovation, customer image, geographical spread and profitability". ▪ The group focuses on sustainable development through reducing the carbon emissions of its products and buildings, improving the energy efficiency of its production processes and finding solutions for reducing construction costs.

3. The Organisation's Financial Performance

Although the sales of Lafarge UK decreased in 2012, the group increased its sales through growing in emerging markets worldwide. Table 2 summarises the 2012 financial performance of Lafarge group, and Lafarge in the UK and Western Europe.

Table 2: The Financial Performance of Lafarge Group, and Lafarge in the UK and Western Europe in 2012

Lafarge Group (For more information see Figures 3 and 4 on pages 2 and 3)	Lafarge in the UK and Western Europe
<ul style="list-style-type: none"> • The group gained €15,816 million as revenue on sales and €432 million as a net income of the group share. • The group's sales increased by 3.5% through growing in emerging markets. • €410 million was achieved as cost savings. • The group's EBITDA and operating income increased by 7% and 12% respectively. Out of the total EBITDA received, 75% was from outside Europe, and €80 million was generated by the innovation plan. • The group net debt reduced by €0.9 billion. 	<ul style="list-style-type: none"> • Cement, aggregates and ready-mix concrete sales of Lafarge UK reduced by 8%, 9% and 15% respectively due to the impact of the slowdown in construction activities. • The Lafarge UK operating income increased by 7% due to the stoppage of the depreciation of the company's assets in March 2011 in order to set the formation of its joint-venture with Tarmac UK. • Despite of the decrease in carbon credit sales in Western Europe (€73 million versus €164 million in 2011), the cost-cutting accomplishments and lower cost inflation alleviated the impact of this decrease.

4. The Organisation's Strategic Position

In order to analyse Lafarge's strategic position in the UK and highlight its available opportunities, and appraise the challenges facing it, tools like SWOT analysis, PESTEL framework, Porter's five forces model and BCG matrix were used.

SWOT analysis (see Appendix A):

According to Hitt, Black, and Porter (2012, p. 114), SWOT analysis is conducted by a firm to identify and evaluate its strengths and weaknesses, in order to compare them with the organisation's external environment's threats and opportunities to understand how the firm's capabilities and resources can be managed successfully.

Lafarge's Core Strengths:

- Lafarge nowadays is a major player in the UK construction industry and it holds around 40% of the cement market share (*Lafarge in the UK: Innovative, Sustainable Construction Materials*, 2012, p. 8). This indicates that the organisation is performing well in its market sector.
- It has the first-mover advantage in innovation. It was the first in its sector to establish a centre for developing innovative building solutions (*R&D at a Glance*, 2012).

Lafarge's Weaknesses:

- Since 2008, Lafarge has suffered from the recession that hit the UK market. Although the market is recovering, the economic slowdown has reduced Lafarge contracting and material sales so far (*Business Environment Facing Lafarge Cement of UK*, n.d.). It can be noticed in Table 1 that Lafarge is still facing a decline in sales volumes due to the slowdown in construction activities, which caused by the recent decrease in public sector funding for constructions (*Lafarge Group Financial Report*, 2012, p. 7).

In order to identify the external environment's threats and opportunities facing Lafarge UK, a PESTLE framework was undertaken to understand the environment in which Lafarge works (see Appendix B). This analysis into the business environment has outlined the following:

Lafarge's Opportunities:

- Innovation and research:
 1. Due to increasing the demand for sustainable building materials, companies nowadays focus on research and innovation to meet the future's requirements (*Business Environment Facing Lafarge Cement of UK*, n.d.). Therefore, Lafarge could provide building solutions through using its innovative and sustainable products such as, developing a reliable, economic and environmentally-friendly concrete which could be the future of sustainable construction. Furthermore, Lafarge UK could take the advantage of its available resources in innovation and development to play a big role in urbanisation.
 2. Developing and producing more value-added products that could reduce the construction costs for customers. Furthermore, the Lafarge Tarmac joint venture's facilities and resources would provide the opportunity to introduce more of these value-added products across a wider geographic area.
- Taking the advantage of a probable long-term growth in infrastructure and house building sectors: The UK government is nowadays aiming for a long-term growth of infrastructure projects, and also planning to support the house building sector (Maer, 2012) because the demand for single occupancy housing is increasing due to the growing tendency for people to live alone and marry later (*Business Environment Facing Lafarge Cement of UK*, n.d.). These social and political changes would procure more work opportunities in infrastructure and house building sectors in the foreseeable future (See PESTLE-Political and Social in Appendix B). Therefore, Lafarge UK could benefit from its nationwide coverage to increase its profitability through contracting and selling products to these sectors.
- Standards establishment: Demonstrating the efficiency of products and helping to raise general standards across the construction industry. As a key player in innovation and development, Lafarge could use its sustainable construction solutions to establish standards of building materials' characteristics and properties for efficient and sustainable building.
- Products and services expansion: Setting further expansion into niche areas around the UK through forming its joint venture with Tarmac. According to the Global Cement Staff (2013), this combination would create savings of €74 million through improved operational, logistical and purchasing efficiencies, and it would also widen the products' geographic coverage of Lafarge.

Lafarge's Challenges/Threats:

- Reduction in plasterboard production: Due to the acquisition of Lafarge Plasterboard UK by Etex in 2011 and changing its name to Siniat, a reduction in Lafarge's plasterboard production is possible. The challenge is about losing a business line.
- Reduction in cement production: Selling off one of its largest cement plants in the UK to meet the conditions of the Lafarge Tarmac joint venture could cause a possible reduction in Lafarge's cement production (*Global Cement staff*, 2012).
- Reduction in cement sales: According to industry forecasts, the cement market is not going to recover its 2007 demand levels (pre-recession levels) until 2020. This would negatively affect Lafarge's sales volumes

(Lafarge Aggregates Limited and Lafarge Cement UK Limited, 2012). See PESTLE-Economic in Appendix B

- Anti-Monopoly and market dominance: The Office of Fair Trading (OFT) investigates the misuse of monopoly power in the UK. The government might decide to break up a company, if it has become too powerful (*Regulation of Monopoly*, n.d.). Therefore, the anti-monopoly policy of the UK government would deny any attempt for Lafarge to dominate the cement market.
- Environmental challenge: Global climate changes and pollution implications have resulted in an intense competition in terms of sustainability, carbon emissions reduction and energy efficiency between companies within the industry. Companies like Lafarge now are doing their best to keep the CO² levels of their buildings and products as low as possible to meet the government restricted environmental regulations (see PESTLE-Environmental in Appendix B). Though Lafarge has reduced its CO² emissions by 24% over the past three years through developing and selling products with lower emissions, and using sustainable production mechanisms; it is still facing a big challenge in improving its sustainability image to meet the UK government’s environmental targets.
- Technological challenges: It is forecasted that the use of ICT (Information and Communication Technology) for manufacturing, delivery, construction, etc. is going to be greater in the foreseeable future. In addition, the developmental pace of applications is projected to be faster (*2020 Vision – The Future of the UK Construction*, 2008, p. 22). Therefore, companies are racing to cope with this technological development.
- Workforce and skills shortage: As the demand for construction increases, the shortage of skills in the industry becomes a big challenge facing companies (*Skills Shortages in the UK Construction Industry*, 2008). This would make companies like Lafarge recruit young people and spend time and money on staff training (*Business Environment Facing Lafarge Cement of UK*, n.d.).
- Rivalry and competition: The UK building materials sector is taken over by five large rivals: Lafarge, Holcim, Heidelberg, Cemex and Tarmac. These competitors cover around 90 % of the cement market, 75 % of aggregates sales and 68 % of ready-mix production (Ed, & Wembridge, 2011). See Figures 6 and 7.

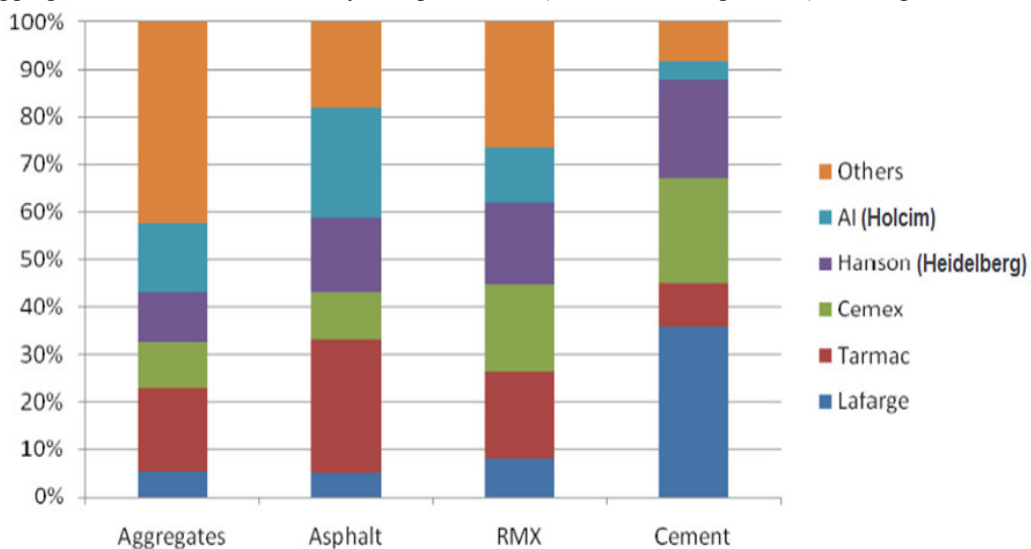


Figure 6: Shares of Building Materials Suppliers in the UK in 2009

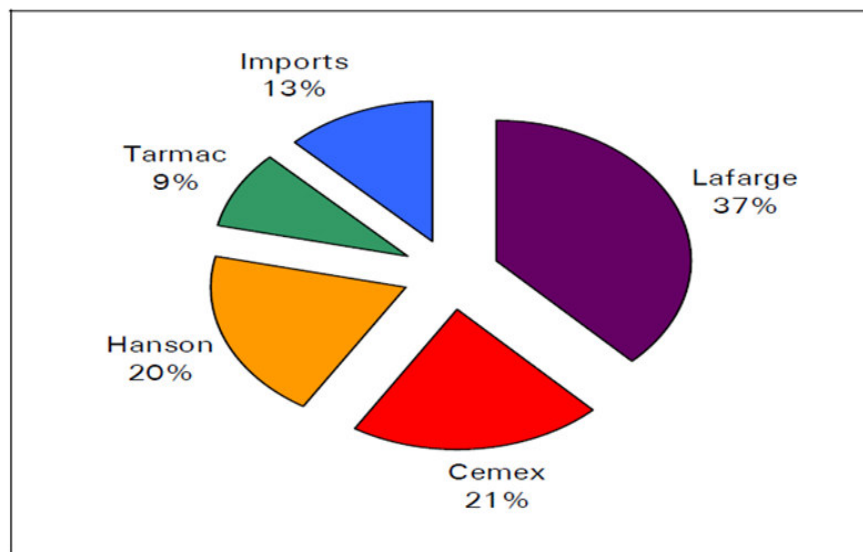


Figure 7: Estimated Cement Market Shares in the UK in 2010

Although Lafarge UK holds the biggest cement market share, it does not hold big RMX, asphalt and aggregates market shares in comparison to its rivals. These shares are expected to be increased through forming Lafarge Tarmac joint venture (*Propose Joint Venture between Anglo American PLC and Lafarge S.A*, 2011). In spite of having these high levels of shares, Lafarge cannot dominate the market, because the government supports competition and it would deny any anti-competitive actions to protect consumers (*Preventing and Reducing Anti-competitive Activities*, 2013). Therefore, despite being a major player in the industry, Lafarge UK seems to face a challenge in terms of competition. (For more information on competition in the UK building materials sector, see Appendix C).

5. The Organisation's Potential Strategic Options

According to Barney, and Hestelry (2006, p. 28), the external and internal analyses of the environmental opportunities and challenges, and the organisational strengths and weaknesses of a firm could support it to engage in a strategic choice. Therefore, the above analyses of Lafarge's internal and external environment have highlighted the following strategic alternatives:

5.1 Further Investments in Research and Development (R&D):

As a global key player in urbanisation, Lafarge was the first in its sector to establish a centre focused on developing innovative construction solutions. This gave it the first-mover advantage in innovation and research. Lafarge spends yearly around €120 million on R&D to improve its industrial performance. This is considerably higher than the investment of other players in the industry (*R&D at a Glance*, 2012). This successful strategic direction could be further enhanced by investing more in R&D to contribute Lafarge's objectives in terms of innovation and sustainability (see Table 1) and meet the increased market's demand for innovative and developed products. Daems (1992, p. 133) has mentioned that "*over the long haul the larger internal market will make it possible to increase the efficiency of product development process and will speed up product innovation*". Furthermore, creating and retaining customers would lead to commercial success. This success cannot be achieved without meeting customers' needs in a way which is better in quality than competitors (Adcock, 2000, p. 157). Therefore, Lafarge UK could pay more attention for R&D to meet market demands and achieve commercial success.

5.2 Setting Further Expansion in Emerging Markets through Making Acquisitions and Forming Joint Ventures:

Lafarge has become a major player in the UK construction industry since its acquisition of Redland in 1997 and Blue Circle in 2001. This successful strategy is likely to be repeated in the foreseeable future for potential development of the organisation. The acquisition of Orascom Cement (The biggest cement producer in the Mediterranean Basin) by Lafarge group in 2007 (*Financial Press Releases*, 2007) clarifies the group's strategic direction towards emerging in profitable markets through acquiring other companies.

Acquiring a company successfully would lead to a further geographic expansion of products and services in emerging markets, and a reduction in costs and tax liabilities (Blank, n.d.). Furthermore, the current financial climate might raise the chance of finding companies that need to be acquired, which could further improve the competitive advantage of such a company with global coverage like Lafarge.

In terms of forming joint ventures, its combination with Tarmac makes it possible to provide the

opportunity for Lafarge to expand further into niche markets and strengthen its leadership of the UK cement industry. This successful experience could push Lafarge to think of forming more joint ventures with other rivals such as, Hanson or Cemex to enhance its RMX, asphalt and aggregates market shares. Furthermore, these two competitors might be looking for enhancing their business through merging to the market-leader in cement manufacturer.

5.3 Taking Further Steps in Sustainability:

As a part of the group's plan for sustainable development, Lafarge is looking at reducing CO², reducing waste and sourcing responsibly (2012: *Lafarge Cement, sustainable consumption - Case Study*, 2013). It has succeeded in cutting more than 24% of its carbon emissions throughout 3 years. This made it ranked in the top 10 UK green organisations (*Lafarge Ranks 7th in First UK 'Green' League Table*, 2011). This has also helped Lafarge to increase its profit through selling carbon credits. This successful strategy could be further enhanced by improving Lafarge's sustainability achievements in every possible area to benefit customers and the environment. First, it could move further towards sustainable construction through investing more in R&D to produce more materials which preserve the environment. Second, it could further improve its production processes using recyclable and renewable materials to reduce pollution and preserve its sustainability image. These steps would build and sustain Lafarge's competitive advantage over its rivals. According to Pitts, and Lei (1996, p. 68), "*a firm builds competitive advantage when it applies its strengths in ways to perform some value-adding activity that other firms cannot do as well*". Gamble, and Thompson, Jr. (2011, p. 4) have also written that "*A company achieves sustainable competitive advantage when an attractively large number of buyers develop a long-lasting preference for its product or services over the offerings of competitors*"

6. Summary and Recommendations

6.1 Summary

The following points summarise the current strategic position of Lafarge UK:

- Although its sales decreased in 2012 due to a slowdown in construction activities, Lafarge UK seems to be performing well in its market sector.
- More opportunities in terms of innovation, standards establishment, product and service expansion and long-term growth in public and private construction sectors would be available for Lafarge UK.
- Though the combination with Tarmac could reduce Lafarge's cement production (see page 7), it would provide numerous opportunities in terms of cost reduction and geographic expansion.
- Environmental, technological, legal, skills shortage, sales reduction and competition challenges are facing the company.
- Strategic options of further investments in R&D, further expansion and further steps in sustainability are possible to be taken by Lafarge UK for potential development.

6.2 Recommended Strategic Option

It is recommended that Lafarge UK should invest more in R&D to provide more innovative construction solutions and meet the future's demand, to take further steps in sustainability, to play a big role in urbanisation and efficient building, to build high technological entry barriers and improve its competitive advantage over rivals, and finally to secure the organisation's position as a major player in the UK construction industry. In other words, if Lafarge UK wants a profitable growth, it should focus more on R&D.

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Appendix A

SWOT Analysis – Lafarge Group

Appendix 2

SWOT Analysis – Lafarge group

		Positive	Negative
		Strengths	Weaknesses
Internal		<ul style="list-style-type: none"> ✓ It is a world leader in building materials and presents in 64 countries ✓ The group was the first in its sector to have a dedicated research and development unit ✓ The Group ranked in the Top 100 Most Sustainable Corporations in the World for the past 6 years ✓ It was the first in its sector to develop a centre focused on developing innovative construction solutions ✓ It produces unique and innovative products ✓ Big supply chain widely distributed around the world ✓ It is established in high-growth markets ✓ It has a partnership with WWF (World Wildlife Fund) to monitor reductions in persistent pollutants 	<ul style="list-style-type: none"> × Its plants are the greatest source of mercury emissions. This generates environmental concerns about the group's environmental policy. × Staff reduction caused by the financial crisis × It is denied by some governments because of its monopoly and market dominance
		Opportunities	Threats
External		<ul style="list-style-type: none"> ✓ Acquisitions ✓ Innovation and research ✓ Emerging markets and expansion abroad ✓ Forming a joint venture with other rival companies ✓ Products and service expansion ✓ Demonstrating the efficiency of products and helping to raise general standards across the construction industry. 	<ul style="list-style-type: none"> × Competition × It is suffering from the impact of the economic slowdown × Health and Safety issues × Problems with human rights and workers' freedom, especially in countries that have weak records on human rights and corruption × Its reputation in the communities that host its operations. × Problems with climate change and Carbon emissions × Industrial conflicts and strike action

Appendix 2

SWOT Analysis – Lafarge group

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External	Strengths		
	Opportunities		

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External	Strengths		
	Opportunities		

Appendix B

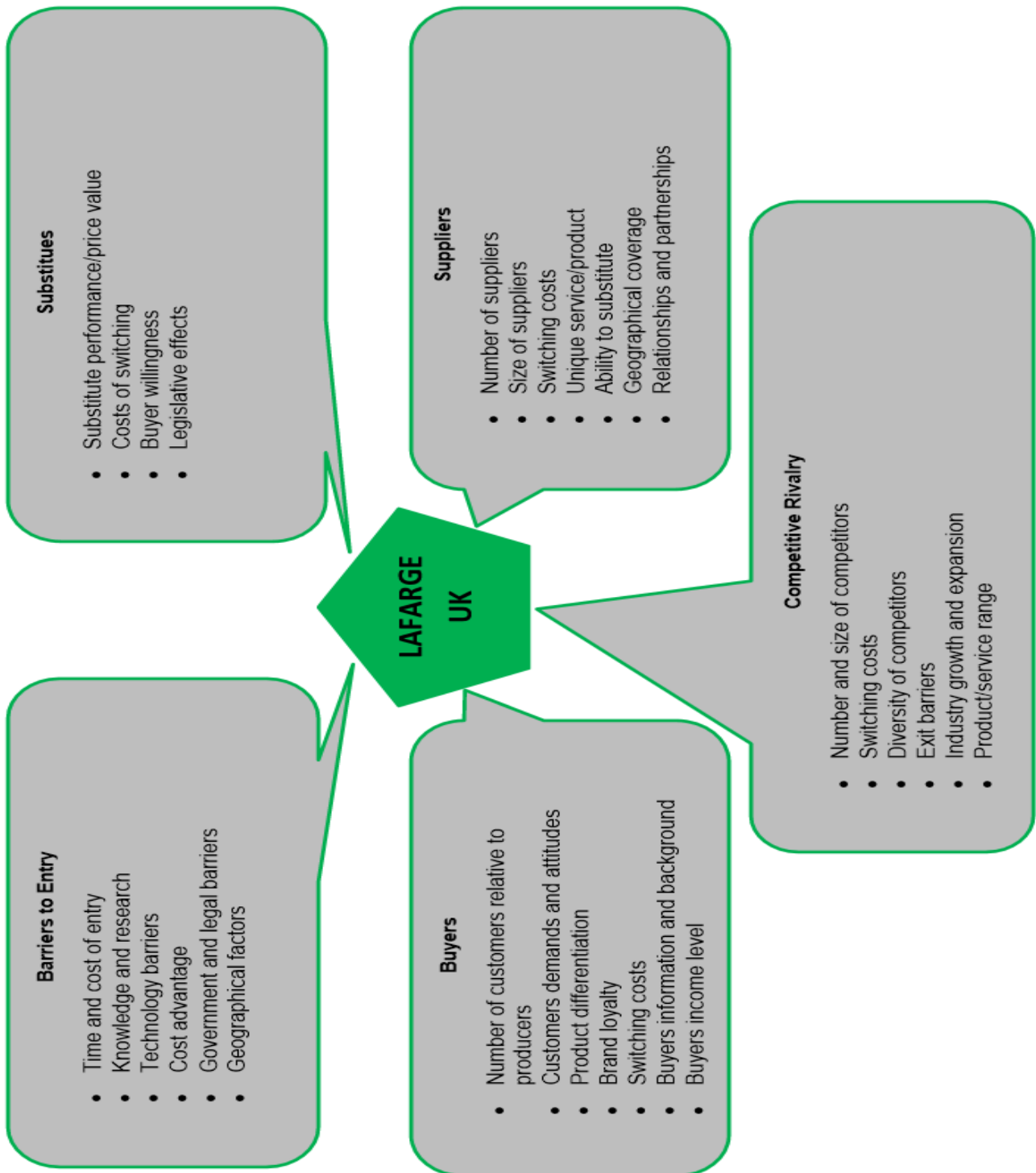
PESTLE Framework – Lafarge Group

H = High ; M = Medium ; L = Low

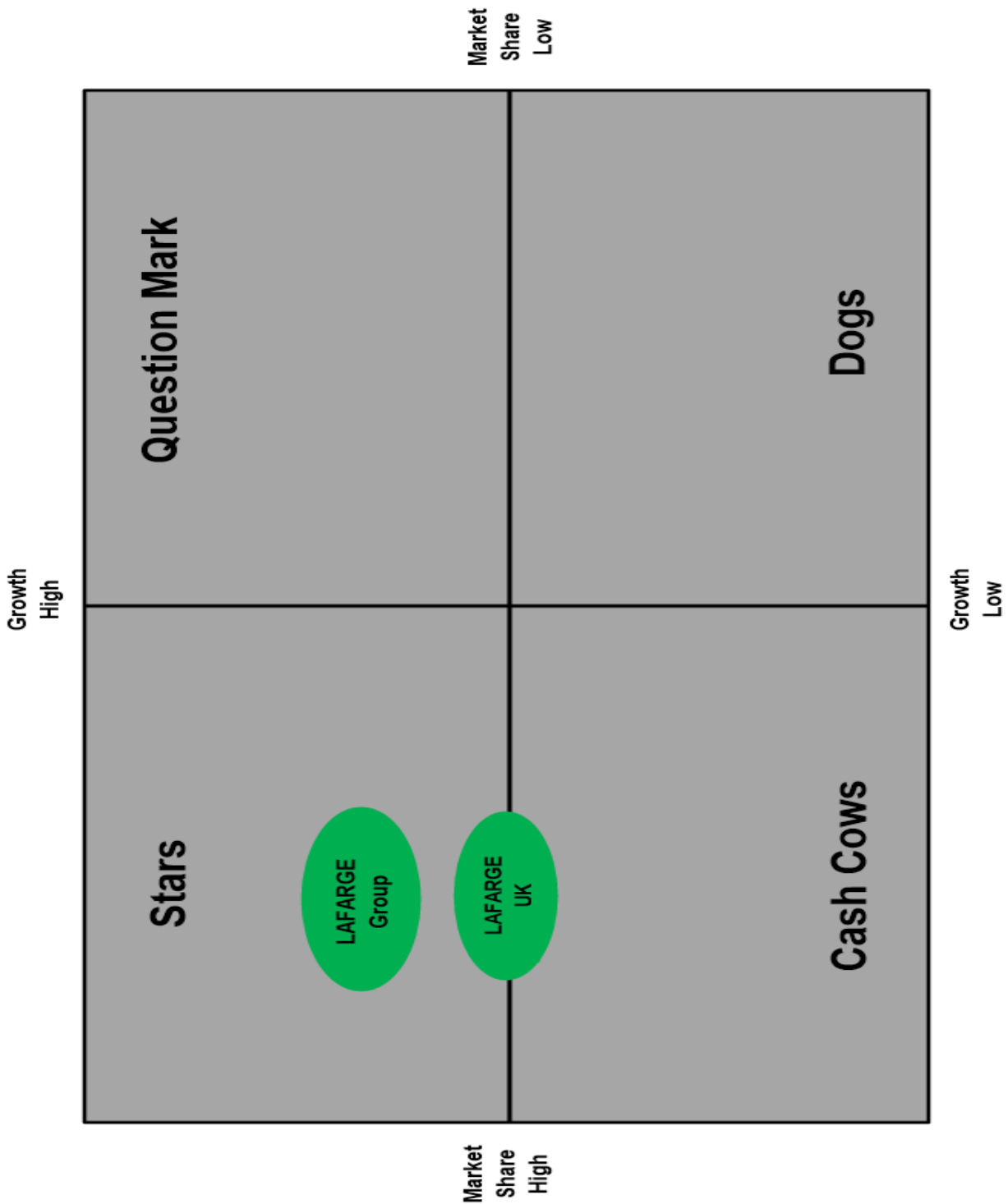
Category	Factors	Impact		
		H	L	M
Political	<ul style="list-style-type: none"> • Government terms and policies • Trading policies • Wars and conflicts • Anti-monopoly government's policy 	• H	• M	• H
Economical	<ul style="list-style-type: none"> • Taxation • Market trend • Home economy trends • Overseas economies trends • International trade • Funding • Shareholders expectations and attitudes • Investments • Competition • Acquisitions • economic slowdown and financial crisis 	• M	• M	• M
Social	<ul style="list-style-type: none"> • Media views • Ethical factors • Advertising and publicity • Demographics • Human rights • Communication • Strike action 	• L	• M	• M
Technological	<ul style="list-style-type: none"> • Research and advancement • Technology legislation • Communication • Innovation copyrights • Technology licensing and intellectual property 	• M	• M	• M
Legal	<ul style="list-style-type: none"> • Building materials regulations • Health & Safety regulations • Current and future legislation • International legislation 	• H	• H	• M
Environmental	<ul style="list-style-type: none"> • Environmental legislation • Social responsibility and awareness • Environmental protests and protectors • Political policy on the environment • Climate change • Sustainability • Pollution and carbon emissions reduction policies 	• H	• H	• M

Appendix C

Porter's Five Forces Model– Lafarge UK



Appendix D BCG Matrix – Lafarge UK



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