Strategic positioning and strategic direction of crh management essay

The strategic process is an essential tool for companies to structure their organisation, focus on goals and effectively manage resources to achieve stakeholder return. CRH has used a combination of strategic tools which have proven highly successful in elevating CRH to be within the top five building materials companies in the world; vertical integration, concentric diversification, adopting the parenting advantage and through ongoing acquisitions.

Vertical integration and CRH have developed three distinct business areas; materials, products and distribution. Advantages of vertical integration is the ability to control costs, quality, deliver consistent service levels and to share competencies across the business, however one key drawback is that it is a high business risk strategy. CRH have balanced this risk through ongoing acquisitions and concentric diversification.

Concentric diversification entails entering related markets with similar technologies or products where core competencies can be easily transferred. This is achieved through add on products broadly related to the construction industry which has proven successful, including security fencing and glass fabrication.

The parenting advantage and acquisition process which are both central to the success of CRH are considered in detail in Section 2.

The company has a clear well structured strategic vision which it communicates to its staff through the website and during ongoing training and development. This focuses all staff to strive for the same goals and helps with understanding the company's motivations.

Strategic Levels

CRH is a diversified company and as. A strong parenting strategy analysed in Section 2 has enabled development of core competencies; these are developed from linking the assets of the company to its capabilities (shown in Section 5. 8) and for CRH include high levels of customer service, quality, adaptability, flexibility and performance led growth.

Day to day operations of the portfolio is decentralised due to varied geographical locations and individual markets are overseen by four strategic business units (SBU) responsible for delivering business level strategy. CRH depend on local managers understanding their individual markets, legislation, competition and customers. At this level, analysis of the business using the Porter’s Value Chain is appropriate.

1. 2 Strategic Levels (continued)

The analysis in Section 5. 9 highlights that CRH has a strong value chain which ensures cost efficiencies and therefore increases profits. Weaknesses identified include the difficulty centralising operations, essential to achieving economies of scales; decentralised operations heighten the risk of weakened processes, loss of control and reputation; legislation variations may prove problematic; product differentiation heightens competitive threat; limited capacity of parent company which could weaken the stringent processes; and if the company concentrates on expansion it may neglect existing customers. One key improvement identified would be strengthening the parent company. The value chain highlights that CRH control its operations well which is proven in the financial returns achieved.

Analysing Porters Generic Strategy matrix, it appears CRH initially operated a cost leadership strategy and now combine this with a differentiation strategy. Whilst maintaining tight financial control over operations CRH have attempted to differentiate through superior customer service and their response to individual customer requirements. Porter argued that companies could only follow one strategy (identified below) to achieve success, however this does not necessarily conform with the idea of competitive advantage which is. CRH have achieved competitive advantage confirmed by shareholder return and high return on net assets.

1. 2 Strategic Levels (continued)

For in depth analysis of strategic position Porter's Five Forces Model is a useful strategic tool for which identify strengths of existing in the industry coupled with risks associated from external forces. Companies can use this information to seek to overcome the risks thereby strengthening market position. CRH analysis in Section 5. 9 identifies high risk factors; standardised products offer little differentiation, allowing customers choice of suppliers based on costs and with competition fierce in this industry, they will have a wide choice of alternatives. Whilst strengths include CRH strong brand, customer service and industry experience coupled with the companies cost control and continuous process re-engineering which enables CRH to remain strong in the face of competition.

Corporate Level Management

The Parent Company

CRH has a strong parenting strategy. With limited staff, the parent company keeps tight control of operations whilst relying on local managers for intimate local knowledge and experience in their given markets. suggest that. Research shows that parenting advantage is difficult to achieve as they must add more value than they cost. Goold, Campbell and Alexander (1998) identify three distinct parenting styles as shown below. CRH appears to fall into the Strategic Control category as they have both a clear strategic vision coupled with stringent cost control measures and financial prudence.

How The Parent Company Adds Value

identify that parenting advantage can be achieved by. CRH appear to have both attributes achieved by adopting two strategic methods; the acquisition process and portfolio management.

Acquisition Process

CRH appears to follow Porters portfolio strategy; which uses the companies extensive industry knowledge to seek out potential acquisitions, purchased at an attractive price, with retained management and then nurtured by the parent to enhance effectiveness and efficiencies thus adding shareholder value. CRH has used this strategy effectively, together with carefully pinpointed geographical locations, to balance it operations in a cyclical industry dependent on economic growth. Acquisitions are undertaken by a dedicated team of experienced personnel, who identify companies with cultural and structural styles similar to CRH to ensure successful group integration. Upon acquisition common systems are immediately introduced for which training is provided. CRH fund acquisitions through cash generation from existing operations, which controls acquisition costs and further enhances stakeholder value. Value can be measured by the increase in return on net assets achieved following acquisition which is approximately 5% within three years.

Parent Company Operations

The parent concentrates on financial control, human resources, development and environmental / safety and devise and implement centralised policies and processes group wide, which are followed up by regular performance measurement, benchmarking, best practice and rigorous cost control.

McKinsey's 7S works as a by identifying organisational structure and style and analysing formal and informal processes. Detailed analysis is shown in Section 5. 10 and identifies important shared values promoted by the parent company; a strong team-working ethic, best practice sharing, continuous communication and networking within the group and an attitude of performance and achievement. All these shared values add financial value to the company through cost reductions, efficiencies and helping the company to be effective in that all personnel strive for a common goal. The parent offers assistance for underperformance and promotes best practice sharing throughout the group to enhance efficiency and reduce costs. In addition to value creation; CRH undertake continuous product improvement and recognise that human capital is a vital resource, investing time and finances heavily in this area; through a policy of internal development, leadership development programmes, regular seminars and a strong group communication network, it has achieved low staff turnover and high levels of internal promotion and is supplemented by performance related remuneration which incentivises managers to be committed and strive to exceed targets. Employing such methods CRH differentiates itself from its competition and keeps the company's knowledge and expertise in-house. Manager rotation promotes ongoing formal and informal networking despite the fragmented group which is encouraged by the parent company through social occasions and attendance of annual general meetings. This management style it fits well with Mcgregors Theory Y states that.

Strategic Options For CRH

CRH currently operate on 5 year rolling strategy. This should continue as it gives businesses time and resources to achieve their goals. One model frequently used to consider future strategy is the Ansoff model. A TOWS matrix has been used to identify how the organisation can use its strengths to capture opportunities, overcome weaknesses and minimise threats by focussing on both the internal and external environment as it. Detailed analysis can be found in Sections 5. 2-5. 5 and the options identified have been included in the Ansoff matrix.

Market Penetration

Considered as the lowest risk option as the company can leverage the firms existing industry expertise and core competencies, however the market will have limitations and may already be saturated

Acquisitions and Marketing – Existing Markets

Creation of additional market share through marketing and acquisitions is attractive. With proven success, the company already has knowledge and expertise through the existing acquisition. Risks include the immense financial input required in buying companies and funding research teams to identify and negotiate with potential acquisitions. Another concern is market saturation and unsustainable economic growth.

Merging with a Similar Company

Mergers remove financial burden and offer the facility to restructure and streamline. Risks are identification of a partner with similar organisational attributes and beliefs, weakened control and possible management struggles.

Creation of Strategic Alliances

Strategic alliances again reduces financial burden and offers best practice and information sharing but have issues of control and identification of a suitable alliance. A significant risk is that one CRH key attribute, industry knowledge and expertise, may weaken if shared thus reducing competitive advantage. Strategic alliances are appealing when and therefore does not fit the profile of CRH.

3 Strategic Options for CRH (continued)

Market Development

Whilst a higher risk strategy it offers potential lucrative new locations in which to gain market share and companies can leverage their core competencies to achieve success, risks are the market environment and competition will be unfamiliar and market share may be taken by other companies already.

Enter New Geographic Locations

Gaining foothold in new locations appears lucrative and may enhance portfolio balance. However this requires times and heavy resources to research potential locations; assessing competition, identifying market capacity, possible market share, sites for development and potential acquisitions; then once chosen, considerable financial input into establishing CRH within the location would be required including building up reputation in the new locations and gaining market share from existing competition.

Enter New Market Segments

CRH could consider expanding its merchanting and DIY, security fencing, clay products and glass fabrication which currently operate in the USA, into Europe or Asia to give the company a foothold into new regions, test the market and gain brand awareness prior to further investment. Disadvantages are the resource, human and financial, required to achieve this and the risks attached to entering an unfamiliar market.

Product Development

This is attractive if the company has a strong relationship with its customers and can look to gain additional revenue from existing customer base.

Develop New Products

With a track record for extending its product base CRH could consider complementary products to further balance its portfolio and increase brand awareness. Research and development of new products however is likely to be time consuming and costly.

3 Strategic Options for CRH (continued)

Invest in New Technology

This has limited scope, products are standardised and technology does not significantly differentiate the product. CRH already re-engineers products to reduce costs and further technological investment is unlikely to yield high returns.

Diversification

This is the highest risk option, reliant on both product and market development, the company may not have the pre-requisite competencies to enter new areas. However if core competencies are transferable it may offer opportunities to further balance the portfolio and offer high returns.

Related Diversification

Diversification into complementary markets appears appealing. One potential opportunity highlighted is transport; this may appear worthwhile as then there may be opportunity to centralise production facilities and further reduce costs longer term. Complementary diversification also allows CRH to add value to new operations and further balance the portfolio.

Disadvantages are financial resources required and identification of suitable markets.

Unrelated Diversification

Unrelated diversification is high risk with research suggesting high failure rates, this could prove costly financially and with reputation. CRH have a successful record in acquisitions and related diversification which still has scope and therefore when considering unrelated diversification extensive research is required together with analysis of their own capabilities and competencies to see if they could be successfully transferred.

Recommendations For Future Direction of CRH

Overview

CRH must continue to strive for low costs and seek ways to differentiate itself from the competition to enable future growth and stability. When considering options, there are three strategies for existing market leaders; be offensive, defend and strengthen position and use competitive pressure to discourage competition. CRH should consider defending and strengthening their position as the most appropriate. CRH must also consider whether future progress fits in with its strategic vision, is achievable with current resources and capabilities and will be approved by stakeholders; recommendations to achieve this are below.

The Parent Company

The TOWS matrix and value chain both identified that ongoing expansion could place strain on the parent causing its stringent processes and procedures to be weakened thus weakening the competitive advantage held by the company. Key to the success of CRH is the tight financial control the parent demands, together with strong review and human resource processes. Any process lapses could impact on costs; staff could become de-motivated and take heir expertise to a rival; which may ultimately weaken the competitive advantage held. This could also lead to problems with day to day operations and ultimately affect customer service. Reputation could easily be diminished, and with this, market share and ultimately profits.

Maximise Opportunities in Existing Markets

CRH should continue to penetrate existing markets. With a strong brand and reputation already prevalent in Europe and North America they should maximise all possible opportunities in these areas. They should continue investment in acquisitions to create additional market share which the parent can make more efficient to yield higher returns by utilising their core competencies. However they must continue to monitor the economic and political environment and should be flexible enough to alter the strategy if required.

4 Recommendations For Future Direction of CRH (continued)

New Markets and Geographical Locations

With strong core competencies, a strong company framework and industry experience, CRH could consider new geographical locations; using experienced managers to aid smooth transition and the experienced acquisition team to identify potential businesses irrespective of the location as they consider the style and culture, together with the financial position as key attributes for successful transition. This will also help maintain a balanced portfolio in the long term. However, the company should undertake detailed research and choose locations carefully, and this should be undertaken whilst continuing to expand its operations in existing known locations. When pinpointing new locations CRH should create a new SBU and transfer experienced key staff into the new unit to ensure continuity and success. Entering new locations will be difficult and experience will be vital in determining success for the company.

Develop New Products

CRH have both the core competencies and a strong customer base to consider development of new products. The products should be targeted at existing customers to exploit their reputation and brand to add revenue and profits to the organisation

Related Diversification

CRH should give careful consideration to complementary diversification to strengthen the value chain and as identified transportation may provide a key solution to reducing costs through the ability to centralise operations and create economies of scale. CRH should identify opportunities where they can exploit their business strengths and transfer their core competencies.

4 Recommendations For Future Direction of CRH (continued)

Unrelated Diversification

CRH should avoid unrelated diversification, it is too high risk and other strategic options are far more attractive for the company. Research suggests that generally the failure rate for unrelated diversification is high. CRH already have a successful formula for related diversification and have an excellent understanding of both the external market and their internal capabilities.

Summary

CRH has utilised strategic theories and options to create a successful, financially stable and growing business; maximising opportunity through strong policies and processes, development and retention of human resource, through identification of profitable products, markets and geographical locations and through recognising the importance of customer needs. The future outlook for the company looks strong through creation of a balanced portfolio and longstanding experience and even in an economic downturn it is likely that the company will be robust and flexible enough to prevail.