# Business environment facing lafarge cement of uk

## Introduction

" Lafarge has been a major player in the UK construction sector since entering the British market in 1987 – acquiring Redland in 1997 and Blue Circle in 2001. Today, Lafarge is the market-leader in cement and holds top-ranking positions in aggregates, concrete and plasterboard. Lafarge has three sister companies in Britain – Lafarge Cement UK, Lafarge Aggregates & Concrete UK and Lafarge Plasterboard UK. Lafarge is passionate about customer care and proud of its active approach to sustainability and safety" (Lafarge. co. uk 2009).

This piece of work will explore the business environment facing Lafarge and establish a few strategic priorities going into the future.

## A Summary Statement of Findings

This summary statement of findings analyses the UK construction industry, which is a major sector in the UK economy. The industry has a high political and social profile due to it key role in providing housing, its impact on the environment and its part as a major employer. It accounts for approximately 10% of the UK GDP and provides for over half its fixed capital investment.

The industry experienced rapid growth in the 1980s but a recession in the early 1990s had severe repercussions resulting in its output plummeting, as show is Appendix . However, the volume of work already in progress cushioned the impact. The output of the UK construction industry increased from 55 million in the mid 1980s to an excess of £110 million by 2007; a remarkable increase in real terms when considering the relative low levels of inflation. However, this increase all changed in 2008 as problems in the US sub-prime mortgage market triggered a catastrophic crash in the US banking sector, which in turn created problems in UK financial markets. This triggered a huge recession in the UK which sent the output of the UK Construction industry to fall 1. 1% in 2008. The downside of the economic recession hit construction industry the hardest. This is as this industry runs on credit, more than others, and a credit squeeze affected it badly. Moreover, from the other side customers were trying to spend as little as possible, squeezing the margins that construction companies were working on.

Lafarge’s performance within the UK business environment during 2008 saw a decline as discussed in Appendix ?. This decline was caused by the recession that hit the UK market in early 2008; the construction sector shrank at its fastest pace since records began. This reduced government and public spending which had a major impact on Lafarge as less government spending meant less money went on the new infrastructure schemes which reduced Lafarge Contracting sales which in turn reduced material sales This had a big effect on Lafarge UK figures as they seen an immense slump in 2008 figures compared to what they were in 2007.

## A Review and Analysis into the Business Environment of the UK Construction Industry

### Business environment at Lafarge UK

The best method to discover the happenings of a business environment around a company is to undertake a PESTEL analysis. By undertaking a PESTEL analysis it will help one to understand the environment within which Lafarge works better.

**Looking at the construction industry in general, some of the political issues surrounding them are:**

**Political factors**

* The UK government is clearly pushing for more affordable housing within the country and this includes both public sector and private sector housing. So it can be said that good or decent housing needs to the people of the country is quite an important political issue.

*The Government is involved with housing projects through private finance initiatives and public private partnerships, as these tend to be key aspects of housing projects involving financing, building and operating for these projects. This level of government involvement does mean that it has political implications like selecting projects or choosing partners as well as financial implications.

*The UK construction industry is very large in terms of employment, revenue generation and importance to the economy. This high profile nature of the company means the Government usually takes its concerns very seriously and cannot afford to not be empathetic towards the industry.

*The constantly spiralling prices of housing within the country points to the need of having affordable housing. Affordable housing schemes means more houses will be built and thus definitely have an impact on all parts of the construction industry including that of Lafarge.

*The problem with a high profile industry is that it brings about a lot of regulations with it, thus needs like planning permission and so cause a lot of delay in projects involving a lot of debate and to some extent bureaucracy.

## Economic Factors

·The construction industry has a more than £100 bn turnover and this making it one of the largest sectors of the country. This clearly specifies scope for Lafarge, especially as it has the reach and resources to be a big player within the industry.

· The downside of the economic recession has hit construction industry the hardest. This is as this industry runs on credit, more than others, and a credit squeeze affected it badly. Moreover, from the other side customers were trying to spend as little as possible, squeezing the margins that construction companies were working on. Although the economy is recovering but coming out of a long recession, the industry will take time to reach its pre recession levels.

·One of the implications of being part of the construction industrys that the Government is tightening the environmental norms all the time thus it adds to the financial burden of the company as they have to deal with directives, clauses and other pieces of legislation.

## Social Factors

·There is some skill shortage within the construction industry hence an effort is being made by all companies to hire young, talented people. This can affect Lafarge as they will need to invest time and money into the training of these individuals but as a long-term investment it is good for the company.

·The changes in society have been bringing about a change in the housing needs for people and fast. As more people are living alone, marrying later and old people living longer, distinct changes in housing pattern can be seen. This will increase the need for single occupancy housing thus this needs to be thought of by all constituents of the construction industry.

·With the ever increasing need for sustainable development, housing projects are affecting nearby retail, commercial and public buildings too. This again changes the way the industry functions or will do in the future.

**Technological Factors**

·Regulations regarding buildings continue to add towards bettering energy efficiency and putting demand on other such technological factors in relation to buildings. This again adds to the financial burden of the companies like Lafarge and a major investment in R&D results due to this.

· New and improved building materials are also a major research within the industry. The need of the hour is to come up with materials that are sustainable, good for the environment but still functional. Hence work is being carried out to satisfy the next generation of demands.

·Methods that are being used within the industry to build houses are giving rise to new methods of assembly and modulation. New improvements include developing structured insulated panels that provide thermally insulated sheet materials.

For further information, Appendix offers a further review and analysis into the business environment of the UK construction industry.

Lafarge does operate within the larger construction industry sector; however this section will explore the building materials sector, which is Lafarge’s core operating territory. This section will look at the environment for that particular sector.

## Sector overview

As hinted in the last section that construction industry is undergoing a lot many changes and the building materials sector is no different. As emerging markets become urbanized and their demand for materials grows, so does the need to align to these markets. Within the more developed economies, environment and sustainability have become major points and as people gain awareness, companies like Lafarge will need to take those demands into consideration. Some of the key strategic directions taken by Lafarge are:

## Expansion of emerging markets

There has been a thorough realignment in favour of emerging economies both in Europe and abroad. Around the world, cement production is growing at 5% each year which means that every year 100 million tones of cement is being consumed. Reports show that 70% of world demand is going to come from these sectors hence Lafarge will need to make itself a leading player in these markets.

Lafarge's current strategy in this regard is quite good, as it has acquired a lot of Cement companies in every region around the world. In fact including Asia, Africa, Central and Eastern Europe, this region contributes to 37% of its turnover and nearly half of its cement turnover.

Lafarge is without doubt moving towards a strategy of more value creation. To elaborate, its programs are creating nearly 50 million tonnes of additional cement capacity by 2012. This is in addition to the aggregates and gypsum business.

## Reducing costs

There are a lot of general costs associated with the manufacture of building products and can be broken down as follows:

” Energy accounts for 33% of the cost of producing cement,

Raw materials (more than 50% of which are cement) represent 75% of the cost of ready-mix concrete

Delivery expenses account for approximately 20% of the cost, raw materials (primarily gypsum and paper) represent 40% of the cost of plasterboard, energy, raw materials and labour represent 50% of the cost of producing aggregates”.

Lafarge will need to reduce all costs associated with material manufacture, especially considering the economic crisis in general. It has already started a program that reduces costs by €200 million by the start of 2010 and over a period of three years, a cost cutting of nearly €400 million. (see appendix ?)

This is in addition to the cost cutting exercise over 2006-08 of €400 million. It has also put a cap on expenditure at € 2 billion for 2009.

These new financial initiatives have completely set Lafarge in a new strategic direction. Cost cutting will definitely improving the company’s financial health and enable it to operate on better margins.

## Reducing environmental footprint of Lafarge operations

If one looks at the industry in general there is a lot of waste production along with pollution, dust and other harmful ingredients in the atmosphere. Those materials that are waste derived are actively needed by the cement industry. These are used as replacement for fossil fuel and other raw materials. This measure is only taken forward if the materials can be safe to use and are of high technical quality. Along with all of this if the regulatory norms are met then these materials can be used and are a boon for the industry.

The entire industry is now using over 1. 4 million tonnes of waste this way and a major contributor in helping the UK government to meet its environmental targets.

Coming back to Lafarge, it has been trying to reduce CO2 it produces and emits in accordance to the regulations set by governments all around the world. The current strategy of Lafarge is to improving its material making processes including modernizing plants. It also is rapidly propagating the use of alternative fuels for its production.

Another important step taken by the company is moving towards sustainable construction. Building or construction of any sort does lead to consumption of huge swathes of energy and nearly 40% of all CO2 can be attributed to it. Lafarge is working hard at making better buildings using better materials and processes. Lafarge is looking at changing the lifecycle of making building products and incorporating using recyclable materials and renewable energy in order to reduce pollution.

## Evaluating the future impact of the UK business environment on Lafarge

Some important themes have emerged from the previous sections of this piece of work that will help one to recommend future strategies to Lafarge. As far as strategic direction goes Lafarge has to align the company in two directions:

First, it needs to keep investing in the emerging markets by strategically acquiring cement companies or starting Greenfield projects if needed. It's taking over of Orascom cement clearly shows that organic growth is important for the company and needs to continue in the same vein. (see appendix ?)

Second, innovation via investment in R&D is crucial for its long-term benefit. As companies and people grow more aware of the issues surrounding the environment, recyclable and sustainable practices, including materials processes, production needs to be incorporated. This will require a lot of effort and investment as well as a new way of thinking.

Other than these main priorities the company can look at other strategic priorities for its operations.

These include reducing costs further to enhance the value of the company. Lean operations within this sector will it streamline its operations. In addition, Health & safety remains a big area to improve on and such activities will definitely strengthen its position in the market.

## Conclusion

This piece of work looked at the construction industry in the UK and Lafarge materials in particular, to understand the way in which its business environment affects its operations. The work conducted a PESTEL analysis to understand the main challenges facing the construction industry in general. It then went on to conduct a sector overview of the building materials industry, where Lafarge truly operates. One also explored the strategic initiatives started by Lafarge. Finally, based on the current and future trends recommendations were made on Lafarge’s future strategy.

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**Identifying and applying suitable business performance measures to Lafarge**

Lafarge had an average current ratio in 2007 in relation to its market but this decreased in 2008. Lafarge’s low current ratio indicates that it barely has sufficient assets available to pay its liabilities. There are many things Lafarge could do to raise there current ratio which are increasing its current assets from loans or other borrowings with a maturity of more than one year, convert non-current assets into current assets or putting profits back into the business could help.

Lafarge’s debtor ratio represents a longer then average duration in obtaining payment for its debts owed compared to that of rival company Aggregate Industries Ltd. This indicates a struggle to obtain payment for work completed, or highlights a need to offer costly credit terms to compete with its rivals. Imposing stricter credit controls can help reduce Lafarge’s debtor days and improve cash flow. Alternatively, creditor ratio suggests Lafarge are paying there creditors to promptly the creditor ratio is below the market average and Lafarge are not taking advantage of the free cash flow the creditors offer. This could cause working capital issues.

Lafarge’s weak working capital results over the past two year indicate they do not have the liquidity to meet outstanding obligations. Lafarge’s cash outflow is quicker than its cash inflow. However the debt to equity ratio suggests otherwise. Lafarge has no long term debt indicating strong financial strength as they can always take up debt in future to fund potential projects.

A strong interest cover over 2007/2008 indicate that Lafarge has enough equity to pay its loan interest and meet its legal obligations. A zero dividend yield indicates that Lafarge’s shares have not matured over the past two years. Potential share holders may be discouraged by this. Its strong acid test ratio proves that current assets are not dependable on inventory-which shows strong financial integrity.

A negative return on capitally employed questions Lafarge’s performance, although they have a strong equity base they are still making a loss. Its declining trading profit margin solidifies this by suggesting a potential loss of competitive advantage. A healthy year on year performance in return on equity indicates a strong level of profitability, high market valuation and utilization of its invested capital. A steady low dividend figure along with stable profit levels indicate a good record of using its retained earnings to generate future growth and profits. For further information, Appendix offer a complete evaluation, as well as the subsequent results of Lafarge’s business performance.