

Important issues that
lincoln electric is
faced with



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The two most important issues that Lincoln Electric is faced with are as follows. First, the inability to meet customer demand because of the shortages in supply creates opportunities for competing firms to enter the industry. What resources and capabilities does Lincoln Electric have that can mitigate this threat of entry. Second, the emphasis put on the monetary incentive plan leaves the company vulnerable in economic hardships. How can Lincoln Electric continue to encourage competition and quality without a high emphasis on monetary incentives?

Examining the arc welding product industry structure will help identify the opportunities associated with that structure. Arc welding is part of the emerging, mature, and international industry. In an emerging industry an opportunity arises in technological leadership. More specifically, firms in the arc welding industry that invest in particular technologies that create greater cumulative volume of production at a lower cost are implementing the technological leadership strategy. Lincoln Electric takes advantage of this opportunity by developing its own proprietary equipment used on the manufacturing assembly line. In a mature industry, process innovation is an important opportunity for arc welding products. The cost advantage of process innovation is done by reducing manufacturing cost, increasing product quality, and streamlining management. The innovative and strategic manufacturing floor plan in Lincoln Electric's manufacturing plant is a prime example of process innovation. Their valuable, rare, organizational competence capability of coordination between product design engineers and the methods department creates an efficient cost saving competitive advantage. " This was seen as a key factor in reducing costs and

rationalizing manufacturing,” William Irrgang explained. The international industry creates opportunities in sales growth for arc welding products. However, international competition can create new threats including increased rivalry, the threat of entry, and the threat of substitute. As will be analyzed below, Lincoln Electric mitigates these threats using a cost leadership business strategy. For example, their valuable and rare inventory control team maximizes efficiency and lowers cost by loading palettes completely full of product while the competition loads palettes only half full of product wasting valuable room.

The threat of suppliers, threat of buyers, and threat of entry are the significant threats in the arc welding product industry. Suppliers in the arc welding product industry include all of the employees that make up a company. The suppliers can threaten performance, quality, and production cost. The temporary competitive advantage that Lincoln Electric uses to mitigate this threat is a valuable, (fairly) rare, (fairly) costly to imitate, organizationally competent employee compensation program. The program includes large bonuses, pays per piecework, and guarantees 75% employment forever. This program also exploits the opportunities associated with the cost advantages in the mature and international industry through economies of scale. For example, the learning curve illustration in figure 6. 2 and equation 6. 5 in chapter 6 of Barney shows that as the cumulative amount of time spent on a project increases (turnover is low), per unit cost decreases. Due to the rapid change in industry demand, the threat of buyers quickly becomes an issue. Without adequate supply, buyers are forced to move to new suppliers. This can lead to a loss in future business. Lincoln

Electric uses the valuable, (fairly) rare, (fairly) costly to imitate, and organizationally competent sales force to mitigate this risk. This opportunity allows them to emphasize customer service which gives them superior performance and quality brand identification. Lastly, the threat of entry for the arc welding product industry includes economies of scale and cost advantages independent of scale. Lincoln Electric mitigates these threats using resources that create cost advantages that are valuable, rare, and organizationally competent. These resources include the internal sale force, the inventory control team, the flat organizational structure, and the employee compensation package.

Two courses of action to consider are: global expansion and part time employment.

Lincoln Electric has been the world's largest manufacturer of arc welding products for the last 30 years. This achievement was accomplished using resources such as process innovation, proprietary technology, and technology software such as its internal sales force and inventory management team. They've accomplished this success all from a single factory in the US. It is this very success that has created their biggest threat, the threat of buyers. Their high quality product at a low price has increased demand. Because of the size and location of the manufacturing plant, Lincoln Electric simply can't meet the needs of its customers with its current levels of output. International expansion would mitigate this threat by increasing supply. It would also exploit the opportunities in process innovation relating to a decrease in delivery time and transportation cost due to the decrease in distance between the factory and the customer. Cutting transportation cost

falls in line with Lincoln Electric's current strategy of process innovation. The increase in sales and decrease in transportation cost will also increase net income. The increased income could be used as a cushion in economic hardships. Although this doesn't change the emphasis on monetary incentives, it does allow Lincoln Electric more flexibility in times of need. As of 1974, Lincoln Electric is financially prepared in cash and government securities to pursue an international expansion that will meet the needs of the customer. However, international expansion as a course of action has a very risky setback that might interfere with the company's current strategy that has become successful. That is, the flat organizational structure. International expansion would ultimately require more levels of hierarchy. The flat organization with minimum levels of hierarchy has been a resource of Lincoln Electric that is valuable and rare. Eliminating it poses the possibility of disconnecting the link between the remaining resources that makes the company successful.

The employee compensation package includes a guaranteed job after two years of tenure. This decreases turnover and increases know-how, both of which are qualities of cost advantage. In an environment that constantly seeks high demand, this resource creates the threat of buyers. To accommodate this, the company should consider part time jobs without the benefit of guaranteed employment. This allows an increase in supply when demand is high and a decrease in employment when demand is low. Part time employment creates a valuable resource that quickly adapts to changes in demand. Financially, adding part time employment to the workforce is relatively cheap to implement and can be written off as a restructuring

expense. However, risks arise in part time employment. For example, the company prides itself on know-how. This allows Lincoln Electric to have a competitive cost advantage over its competitors due to employee specialization. Part time employment on the other hand requires a high learning curve. This factor alone could negate competitive cost advantage creating at best competitive parity. In order for this to work, the cost that is lost due to inefficient employees must be lower than the increased price in net income. If implemented successfully, part time employment would create a valuable resource that increases market share opportunity while mitigating the threat of buyers.

I recommend for the course of action to expand the company internationally. Although the cost of doing so is high, the company is financially prepared to exploit this opportunity, and although the organizational structure is flat, they have valuable and rare technological hardware and software resources that will mitigate any threats that arise. This course of action is directly inline with their strategy of process innovation, it exploits international opportunities that will allow the company to grow, and mitigates the threat of buyers and the threat of entry through economies of scale. Expansion limits the opportunities available to wean away from monetary incentives, but an increase in sales gives the company a cushion in times of economic hardships.