

Good example of research paper on lincoln electric strategy and its strategy

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Industry Analysis

Industry Structure

Welding is an important process for different types of structures such as roads, bridges, railroads, oil facilities and general infrastructure. Arc welding is the most popular type of welding in the welding industry. The potential for growth in the industry remains high because infrastructural structures are always coming up in different places in the world. One of the most critical success factors is being able to adapt competitively to an increasingly innovative industry. Having skilled employees who are committed to the company objectives and customer-focused is an invaluable asset to any company in this industry.

Industry Rivalry

The welding equipment and supplies industry is fragmented and competitive. This is because the top six biggest welding equipment companies in the world account for more than 50% of the global market share. The rate of global growth is directly related to the rate of growth of global infrastructure. Currently, the global economy is being driven by the BRIC countries (Brazil, Russia, India and China). It is not a surprise, then, that these are the countries where the welding industry is growing at the highest rate. Even though the United States is a developed economy, they have a continued need for welding equipment and the growth rate of the industry is moderate. In developed countries, tremendous growth in the welding industry is likely to be affected closely by the energy industry. For example, when there is a boom in the oil industry, the demand in welding materials increases.

Lincoln Electric

Lincoln Electric is one of the world's largest manufacturers of welding equipment and supplies, also known as consumables. The company sells welding equipment and consumables as a solution to a problem. The company sets itself apart from competitors by selling welding solutions rather than welding products. This has led to increased sales over the years. The company is dedicated to maintaining a philosophy of creating superior manufacturing capability. Their core belief in employee empowerment is indicated by year-end bonuses as well as guaranteed employment as is evidenced by the remarkably high employee retention rates. Lincoln Electric's strategy has always been based on their strengths in manufacturing. This is evidenced by the fact that William Irrgang's strategy outline which was written in 1975 is closely similar to that of James Lincoln in 1947. This is a statement which indicates that despite being almost 30 years apart, the strategy was partly consistent throughout that period. This has not changed by much even today. The strength in manufacturing enables Lincoln Electric to continue low cost production. This translates into low costs for products sold to customers and eventually to a solid customer base. The following are some of the strategies used by Lincoln Electric.

Key Porter's Forces analysis

Competitors in the Industry - There are six main competitors in the welding market. These include Illinois Tool Works, ESAB (Charter plc), Air Liquide, Thermadyne, Kobelco, Ador ESAB India, Welding Ltd., EWAC Alloys Ltd. smaller companies may pose a competition threat if they copy production

practices and sell their products at a lower price than that of Lincoln Electric.

Threat of new entrants- This may not be a big threat because there are high capital requirements. In the welding industry, the economies of scale factor poses a big hindrance to new companies to enter the market, which is largely controlled by the six major leaders mentioned.

Buyer Power- Low switching costs provide relatively high power to buyers in this industry. Brand identity is an important factor if companies differentiate their customer service from that of competitors.

Overall, this industry needs not be attractive for new entrants to enter. This is because companies must deal with high initial capital costs as well as high competition. Lack of experience in this area of manufacturing is likely to discourage potential entrants even when the potential and outlook of the industry is as promising as it is today.

Competitor Analysis

In the welding industry, there is a high level of competition. This is driven by pricing, product quality, customer service, and innovative technology. There are many welding companies in the world but over 45% of the global market share belongs to only six companies. These companies include ESAB, Illinois Tool Works, Ador Welding Ltd, ESAB India and EWAC Alloys Ltd. Lincoln Electric's biggest competitor is ESAB (Charter plc), which had \$0.93 billion in revenues in 2012 (Harmon 1). ESAB is a subsidiary of Charter Plc, whose core goals are to be a European-based company with a presence in the global market. It is the U. S.'s third largest welding manufacturer but leads in Europe, India, Argentina and Brazil.

ITW produces and sells engineered components, fasteners, equipment, consumable systems as well as specialty products. The company operates in 7 segments: test and measurement; electronics; polymers and fluids; welding; construction products; specialty products and automotive OEM. ITW has 50% of its 2012 revenue coming from North America while 30% comes from Europe, African and The Middle East. This makes it a direct competitor to Lincoln electric. The company made great progress in profitability in 2012 and raised its adjusted earnings per share to 10% while operating margins improved by 50 basis points. The company invested almost \$100 million in project restructuring. This promises to enhance the company's future profitability and capital returns (ITW 5). Overall, the company had approximately \$18 billion in revenues and almost \$17 billion in operating income in 2012 (ITW 4). ITW was stronger than Lincoln Electric in the fourth quarter of 2012. This is because it had 4% growth in international markets and a growth of 1% in Europe. Lincoln Electric, on the other hand, had a growth of less than 4% internationally.

Competitive strategy Analysis

Core competencies

The main core competencies that Lincoln Electric has include quality performance; leadership; skilled employees; employee motivation; innovation through research; good work environments and quality performance. Lincoln Electric's ability to obtain access to new technological products is a major core competency. The well-trained and experienced marketing team and the company's reliability in producing high quality and

reliable equipment were some of the factors that are value drivers (Harmon 1). In addition, Lincoln Electric recruits the most talented employees for the sales and marketing teams and makes sure that they know their way around welding practices and equipment. This is achieved by taking them through a rigorous training process in metallurgy, welding and design.

Distinctive competencies

Distinctive competences are the attributes and strengths that enable Lincoln Electric to distinguish itself from the competition. This enables the marketing employees to develop good customer service because they can work with customers and teach them on the various processes and efficiencies that may be attained.

Lincoln Incentive Management System

Lincoln Electric has the Lincoln Incentive Management System, which is a competitive strategy through incentives. This system is based on the principle of employee motivation. This means that if the employees are to benefit, the business should prosper. Today, the company is worth more than \$440, 000, 000 and has over 2, 400 employees. The incentive system has five main components. The first component consists of encouraging employees to buy stock from the company. This stock is offered to them at book value and they should sell it at book value when they leave the company. More than 70% of the employees have a stake in the company through stock ownership. As a unit, all the employees own about 50% of the company.

The second component is the Advisory Board and the Open-Door Policy. This

comprises of constituting an Advisory board made up of employees from the different divisions of the company. This board discusses employee and management welfare as well as mutual interests. This ensures continuous information flow throughout the company, which is made even more successful through the Open-Door Policy. This is where an employee from any level of the company can access the office of the highest director and provide suggestions or file a complaint.

The third component is the Piecework compensation system. This is whereby factory workers at this company get piece-rate wages where no minimum hourly pay is guaranteed. This means that the worker receives a fixed amount for every task completed. This method works well as Lincoln Electric because there is no limit to the amount of money an employee can earn. Setting the level of pay for work in the piecework system is taken seriously at Lincoln Electric. Time study experts are employed to watch workers as they perform assigned tasks for extended period of time before determining the monetary value that is competitive enough to keep employees happy while being profitable for the company. The fourth component of the incentive system is a Merit-Based Bonus System. This is whereby the Board of Directors sets aside 32% of the annual profits earned before tax, interest and bonuses.

Innovative Manufacturing

Lincoln Electric has a strong belief in excellence in the field of manufacturing. They concentrate primarily on saving on costs and translating these savings to lowered prices for the customer. Lincoln Electric

has superior operations which are mostly automated and include proprietary internally-designed equipment as well as modified third-party machinery which run at high speeds for an increased production rate.

Accelerated additive manufacturing process.

One of the notable advancements in innovative manufacturing is the planned use of a new metal-layering technology which makes use of a wire-based, laser-guided additive process. This process rivals conventional additive manufacturing technologies. According to Belforte (1), Lincoln Electric plans a \$700, 000 project, which is funded by America Makes, an institute founded in 2012. This project is aimed at accelerating the additive manufacturing process and 3D printing. This will help to improve the competitiveness of the company in specific and that of the country in general. Success with titanium could prove a huge bonus to additive manufacturing because of the current repair and fabrication challenges associated with titanium. Titanium is identified in aerospace, military, medical and other high-end industries as a crucial-part material due to its attributes such as low-weight, corrosion resistance and strength. According to Belforte (1), for a titanium piece to be machined successfully, more than 75% of its mass may have to be machined away. This is a costly and slow process which results in significant waste. If Lincoln Electric's innovative strategies in this area work, there is potential for great financial gains. In addition, the company has automated welding machines which make work easier and are more efficient.

Customer Satisfaction

Lincoln Electric also differentiates itself from its competitors by offering superior customer service. Selling solutions rather than welding products has increased revenues over the years and led to improved customer relationships. This is connected to the company's compensation/ incentive strategy discussed earlier.

International strategies

Lincoln Electric has recently entered into the Indian manufacturing market. The company has invested over \$ 20 million on the Indian plant. This is likely to have a positive outcome on revenues in Asia. The company has been importing welding equipment from its American mother company in Cleveland U. S. A. The Indian plant then manufactures welding consumables to sell locally. Consumables include raw materials such as electrodes, wires, rods and fluxes which are normally consumed during welding. The company has been growing at a steady Compound Annual Growth Rate (CAGR) of 46%. This manufacturing plant may be expanded to make use of the vibrant Asian market (ET Bureau 1). Overall, Lincoln Electric has made inroads into the global market with remarkable Success. For example, the company has entered the Chinese market. The company reported 7 acquisitions in 2008. This underlines the intention of Lincoln Electric to enter the global market as part of its competitive strategy.

Work Cited

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