

# Nucor case study

Education



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### Introduction

Starting its operation as a producer of nuclear instrument and electronics, Nucor Corporation has able to shift its business inclination to steel production and gain significant market dominance in the American steel industry as well as expand robustly in the international market through joint business ventures with foreign steel companies. Through the great outlook and leadership skills of F. Kenneth Iverson, Nucor Corporation has enabled to expand its operations from a small American steel company to a now globally known major steel producer in the United States through the aid of its various competitive advantages. Nucor Corporation obtained its competitive advantage of providing cheaper steels in the market through minimizing its production costs by stressing the importance of technology and workforce efficiency on its production line. Nucor has been known for being the pioneer on the implementation of new technologies on producing steels in the American market and one of the top companies around the globe that extensively investing to highly advanced equipments for steel production.

In addition to this, despite of economic set backs happened in the United States and other regions internationally, Nucor Corporation remains “healthy” or stable while other major steel producers in the United States were almost on the brink of bankruptcy while small producers shut down their operations. The said instability of various steel producers in the American market enabled Nucor to successfully expand its market share, target market, and product lines through acquiring financially unstable steel companies.

But despite of the strong foundation and immunity of Nucor Corporation on various business factors, competition still remains a major threat to the stability of the said company. Foreign steel companies from Europe, Australia, and Asia exporting in the domestic market of United States and offers super low priced steels in the market, through the subsidies being provided by the respective governments of those foreign steel companies exporting in the United States, posing a significant threat on the sustainable growth of Nucor in the American market. Another issue would be the merging of large international steel companies that also contributes to the tightening competition in the international market and in the American market as companies made through merging and acquisition starts investing to the domestic market of the United States.

This merging of international steel companies, therefore, threatens directly the market share of Nucor in the market and its profitability. The last but not the least issue would be the increasing costs of scrap metals in the market that threatens the ability of Nucor to produce cheaper steels in the market. With the increasing demand for scarp metal for the past years since 1960's, Nucor's source of competitive advantage on cheap production of steels is presently on the brink of getting out on its hands.

#### Factors Affecting High Exports of Foreign Steel Companies to US

Global steelmaking capacity exceeded the global demand from 2005 to 2006 forcing international major steel makers to seek better market abroad. During then, there was a strong demand of steels in the American market resulted from shortage of supplies caused by the shutting down of operations of many steel makers on the latter years. China, Russia, South

Korea, Turkey, Taiwan, and Japan are just few of those many countries that extensively exports steels in the United States. Between November 2005 and September 2006, steel imports to the United States rose over 70 percent thereby hurting the domestic manufacturers of steels in the American market.

To make the scenario worst for the United States, most of the foreign steel companies that exports steels to United States were owned or/and subsidized by their government giving them enough room to set their prices “super lower” relative to the prices of American steel producers. American steel producers on the other hand, were on the state of financial instability during then which makes it hard for them to compete with the “super low prices” of foreign steel makers exporting to the United States. The federal government and other international organization, like WTO, has been on the action of determining if whether those above mentioned countries that extensively exporting to United States and offering super low prices backed by subsidies from their government violates any international trading rules set by the World Trade Organization.

#### Alternative Solutions on High Exports of Foreign Steel Companies to US

In order for the welfare of Nucor to be protected, Nucor’s executive can file or request for an official investigation to WTO and federal government to determine the legality of the provision of subsidies of various government of foreign companies exporting steels in the United States’ market that adverse affects the stability of American steel producers especially Nucor. Though there is already an ongoing investigation conducted by the WTO and federal government regarding the legality of China’s provision of government

subsidies to their steel companies exporting to United States, it would be best for Nucor to request WTO and the federal government to also check the legality of other countries receiving subsidies from their respective governments and export steels in the United States. Through this, Nucor executives will be able to put pressure for the WTO officials and the federal government to provide immediate actions on the above stated issue.

Another alternative that can be used by Nucor would be to raise its budget for research and development to further improve its technology on producing cheaper steels in the market. Through this, Nucor would be able to further lower down the prices of its product lines in the market leading to outperforming not only its foreign competitors but also domestic steel companies in the American market. Nucor has been known for pioneering the application of new technologies in order to produce cheaper steels in the market resulting to its acquisition of competitive advantage relative to its domestic competitors. In this regard, by raising its budget for research and development, Nucor would be able to research for new technologies that would further lower down their production costs thereby giving them enough room to further lower down their prices in the market and outperform foreign steel companies exporting to United States.

The last but not the least alternative that can be implemented by Nucor's executives would be to invest on advertising strategies in order to improve the brandloyaltyof their customers as well as establishing new marketing techniques that would provide higher profits to the company. Through this, Nucor would be able to maintain their present customers on their side and further attract potential customers in the market. Advertisementthrough

various forms of media would make the product lines of Nucor more popular and enabling them to tap a wider scope of customer segment in the market. By having a competitive advantage in terms of publicity and marketing strategies, Nucor can have enough room to maintain its present customers, attract more customers, and outperform their competitors in terms of popularity and brand loyalty, thereby minimizing the threat posed by the increasing exports of foreign steel producers in the United States.

#### Factors Affecting the Merging Nucor's Competitors

The Asian Financial Depression and September 11th terrorist attack made significant adverse effects on the stability of steel industry not only in the United States but also across the world. Various major steel companies were forced to merge with one another in order to offset the adverse of the said two industry downturns. Merging and acquisition oftentimes results to a financially and managerially strong company that is why major steel companies opted to use the said strategy in order to protect the interest of their stakeholders and market share in the steel industry domestically and abroad (Hutchison, 1998). The resulting steel companies of merging of international steel companies pose a major threat on the market share of Nucor as well as on its profitability. Like for the case of the merging of two of the largest steel companies in the global market, Mittal Steel Company and Arcelor Steel Company, which formed the largest international steel company starting to penetrate the North American region and depreciated the market share of Nucor in the said region. Nucor's acquisition, on the other hand, was not considered as a defensive strategy on the said two industry downturns, rather, it was an "aggressive" action of Nucor to

expand its market share, product lines, and target market. In other words, the consolidation of steel industry in the early 2000's provided positive and negative effects to many steel companies internationally.

#### Alternative Solution on the Merging of Nucor's Competitors

One possible alternative that can be implemented by Nucor in order to protect its interest from the adverse effects of merging of major international companies would be for Nucor's executives to intensify their strategies on international acquisitions. It was identified that most of Nucor executives' concentration falls under the domestic expansion of Nucor in the United States and provide less premiums on potential merging and acquisitions to foreign steel companies. International steel companies has been extensively merging with one another in order to gain financial and market advantages as well as to widen the scope of their operation, like for the case of the merging of Mittal and Arcelor wherein the latter was able to utilize the acquired American steel companies of Mittal making them the largest steel producer in the North American region. With this kind of threat that international steel companies' acquisitions impose on the stability of Nucor, it would be best for Nucor's executives to aggressively merge with other international steel companies in order to lower the gap between Nucor and other merging international steel companies, like the Arcelor Mittal Steel Company, in terms of company and production size in the market.

Another alternative by which Nucor could implement would be to seek help from the federal government to tighten the policies and barriers to entry of foreign steel investors to United States in order to protect the interests of American domestic producers. The federal government could either impose

higher tariff rates or corporate tax to foreign steel companies that will operate in the United States or discourage the acquisition of foreign steel companies to unstable American steel companies. Through this, Nucor and other steel producers in the United States will be legally protected against the adverse effects of aggressive acquisition strategies of foreign steel companies in the market. Nucor will benefit the most if the federal government will provide assistance and protection to domestic steel producers since Nucor serves to be the main and largest American producer of steel in the United States.

The last but not the least alternative that Nucor's executives could implement would be for them to further lower down the costs of their product lines in the market in order to undercut the price offering of international companies investing in United States formed from the merging of various foreign steel companies. Nucor can utilize its advantage on producing cheaper steels and offering relatively cheaper steel products in the market. International steel companies investing in the United States should still be under its adjustment period and financially unstable and Nucor could attack these weaknesses through further lowering down their prices in the market. In addition to this, Nucor will also be able to overtake the performance of other domestic steel producers in the United States and also those foreign steel producers being backed up financially by their respective governments.

#### Factors Affecting the Rising Cost of Scrap Metal

The limited supply and growing demand for scrap metal to produce steel products in the market are the two main factors why prices of scrap metal in



the market are spiking. With the development of thin-slab casting technology, more steel makers across the globe shifted the way they produce steels in the market from being an integrated steel producer, producing metal from iron ore pellets, limestone, coke etc., to minimills that uses primarily scrap metals to produce steel products. The growing awareness of the efficiency and productivity of using minimills triggered the prices of scrap metals in the market to increase alongside with the fact that there is only a limited supply of scrap metals in the market. The increasing price of scrap metals endangers the competitive advantage of Nucor in terms of producing cheap steels in the market, making it a major concern of the said company.

#### Alternative Solutions to the Rising Cost of Scrap Metal

Since scrap metal serves as one of the sources of competitive advantage of Nucor in order to produce cheaper steels in the market, it would be best for the executives of the said company to evaluate the possibility of importing scrap metals from other countries given the fact that prices of scrap metals in the United States are rising. Nucor must start searching for countries that can provide them with cheaper scrap metals that they will use to produce steels in the market. The rising demand for scrap metals in the market due to the popularity of minimills in the steel industry will continuously raise its prices leading to potential profit loss and financial instabilities to Nucor. Therefore, through searching for other sources of scrap metals in other countries, Nucor will be able to maintain its cheaper production costs and protect its present level of profitability.

Another alternative that can be used by Nucor's executives to solve their problem regarding the rising prices of scrap metals in the United States would be to start establishing integrated steel facilities. If the cost of producing steels through using minimills is equal or greater than the cost of producing steels through using integrated steel facilities, then, it would be advisable for Nucor executives to start investing on building integrated steel facilities to maintain their cost efficiency in producing steels in the market. Shifting to the production of steel through integrated steel facilities would give Nucor a chance to target those customers that prefer pure steels in the market. Minimills or using scrap metal as the main raw material produces relatively impure steels compared to using limestone, coke, and iron ore pellets as the main raw materials in producing steels through the use of integrated steel facility. Therefore, the establishment of integrated steel facilities would not only provide Nucor a solution to the rising cost of scrap metal in the market but also increasing its target customers in the market.

The last but not the least solution that can be implemented by Nucor's executives to address the increasing prices of scrap metals in the United States would be to engage in long term business transaction with scrap dealers in the market with agreeing a certain level of price on a given period that would allow Nucor to still produce cheaper steels in the market and maintain its profitability level. There are some scrap metal dealers in the market that offers or open for business agreement with steel companies to supply the latter with scrap metals relatively cheaper compared to their regular customers in the market. This can be utilized by Nucor to solve its problem on the rising prices of scrap metals in the market that threatens

their competitive advantage in producing cheaper steels in the domestic market of United States.

#### Recommended Alternative to Solve High Exports of Foreign Steel Companies to US

Among the identified possible solutions to address the issue on increasing exports of foreign steel companies to United States that threatens the stability of Nucor, the best solution would be the allotment of higher budget for research and development to establish new technology that would enable Nucor to producer allot more cheaper steels in the market thereby attracting more customers on their side and leaving foreign investors with less available customers in the market. Through utilizing this competitive advantage of Nucor in terms of technology advancement, Nucor would be able to outperform the rising exports of foreign steel companies in the United States through putting enough pressure to attack the financial instability of the said foreign steel companies. On the other hand, there is no need for Nucor to request for WTP and the federal government to conduct investigation since they are already on the process of investigating countries that provides subsidies to their steel companies exporting in the United States. It would only be a waste of effort if Nucor will it will continue to implement the said alternative. In addition to this, increasing the budget for advertisement and formulating new marketing strategies would only provide short term benefits to the company as compared to investing in further improving the technologies that Nucor currently has which provides long term benefits and sustainability. Due to this reasons, it is justifiable to say that increasing the budget for research and development of Nucor is the best

solution at hand that can be implemented by the said company to address its problem on rising exports of foreign steel companies in United States. As for the implementation process, Nucor executives must call for a meeting and talk about how much budget they will add to their research and development team and once the budget increase was approved, then, the research and development team must start right away to look for new technologies that can improve the production efficiency of Nucor relative to not only to its foreign competitors but also to its domestic competitors.

#### Recommended Solution to Solve the Problem on the Merging of Nucor's Competitors

In order to best solve the problem on the merging of Nucor's competitors, it is best for Nucor's executives to implement the intensification of their international acquisition and merging to cope up with the active acquisitions of various foreign steel companies in the international market. Through this strategy, Nucor would be able to further expand its market share, target customers, and increase its production capacity thereby minimizing the gap between Nucor and other large well known international steel producers like Mittal Steel Company. For the past years, Nucor officials have overlook the importance of acquiring foreign steel companies to establish the position of Nucor in the global market. Acquiring international firms, either minimills or integrated steel facility type of steel company, would fit to the market expansion of Nucor since the latter has the financial capability and technology advantage in order to align its operation with the potential foreign company to be acquired. At the end of the day, this solution will not only provide a defensive strategy to Nucor but also an offensive opportunity

to compete at par with well known international steel producers through increasing its market share and production capacity in the market. Moreover, regarding the further lowering of Nucor's prices, this strategy is already included on the intensification of Nucor's acquisition strategy since once it already acquire a foreign steel company, Nucor's production capacity improves resulting to a more efficient and productive production line. Therefore, one can say that the first and third alternative are related to one another, thereby there is no need to bother implementing the third alternative since it will still be attained through the first alternative which is the intensification of merging and acquisition strategies of Nucor with foreign steel companies. On the other hand, seeking legal aid to the federal government in the form of tighter foreign investment entry policy would be less effective compared to the intensification of international acquisition and merging strategy of Nucor since the federal government's regulation concerning international trading policies is bounded by the policies provided by the WTO, not to mention the diplomatic relationship of United States and those countries allegedly providing government subsidies to their steel companies exporting in the United States. As for the implementation process, Nucor's executives must start forming a team that would identify potential foreign companies open for merging agreements with Nucor and to determine the amount of benefits that Nucor will receive from such business acquisition. After determining potential companies to acquire, the next step for Nucor's executives is to conduct a meeting with the officials of their prospect company and discuss their merging plans.

Recommended Solution to the Rising Cost of Scrap Metal in the United States

To solve this problem of Nucor on the rising cost of scrap metals in the United States, it would be best for Nucor to implement simultaneously the importation of cheaper scrap metals from other countries as well as the engaging to long term deals with American scrap dealers in order to provide Nucor with relatively cheaper scrap metals to be used for producing steels in the market. Both the said strategy aims for the further improvement of Nucor's cost efficiency in producing steels in the market as well as to keep Nucor competitive advantages against domestic and foreign steel companies since cheaper steels are more attractive to customers in the American market. In other words, once Nucor further lower down the costs of their steels in the market, the threat pose by the rising cost of scrap metals in the market will be offset by importing cheaper scrap metals from other countries and engage in long term deals with American scrap dealers which will set a standard price for a given period of time. On the other hand, the shifting of Nucor's way of producing steels from minimills to integrated would only be effective if the cost of producing a single unit of steel using blast furnaces [integrated steel facility] will be lower than using an electric arc furnace [minimills]. So far, producing steel through using blast furnaces remains relatively expensive than using an electric arc furnace which is presently being used by Nucor. Therefore, it is the importation of cheaper scrap metals from other countries and venturing into long term agreement with domestic scrap metal dealers are the only attainable solutions at present and relatively more effective than shifting the production method of producing steel from using electric arc furnaces to blast furnaces. Regarding the implementation of the recommended solutions, Nucor executives must establish a team that would be responsible for searching for countries that

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offer cheaper scrap metals in the market and would be responsible for formulating the terms and conditions that Nucor will present to their prospect domestic scrap metal dealers open for a long term business contract with them.

#### References

Hutchison, G. S. (1998). *The Business of Acquisition and mergers*. Presidents Publication House.