IBM Global Business Services

IBM Institute for Business Value

Industrial Sector

Seize the strong positions

Steel companies in an era of consolidation

The global steel industry, dormant for years, has awakened with a new vitality. A wave of consolidation is sweeping the industry, but other industrywide changes are also unfolding, such as a shift away from developed countries, rising production costs and globalization. Each steel company should revisit its market position and aim for one of strength, such as "Market Share Grabber," "Niche Player" or "Value Chain Stretcher." Failing to achieve one of those, a steelmaker could fall into a weak position, such as "Underdog," "Struggler" or "Take-over Target."

After a prolonged slump, steel returns to vitality

The steel industry is in transition, recovering from a period of decline and transforming into a vital, global industry. The more visible headlines have been in the arena of mergers and acquisitions. The US$23 billion merger of Arcelor and Mittal in late 2006 combined the world's two largest steel companies and created the industry's first global giant.[1] In addition to consolidation, a number of other things are happening within the industry. The entire industry dynamic has been transformed over the past five years. Profits have increased, production is up and demand is growing. At the same time, though, raw material costs are rising, the rate of globalization is not particularly strong and China alone accounts for two-thirds of the increase in world demand.[2] If demand in China and India stays strong, the global steel industry will likely enjoy a prolonged period of stability and the opportunity for strong financial performance.

Positioning for today's steel industry

We believe steelmakers should select a strong company position that fits with the new dynamics of the steel industry. Instead of aiming for a traditional role as a premium player, commodity player or low-cost producer, the steelmaker today should aim for one of three strong positions:

- *Market Share Grabber* looks to expand market share rapidly, often by buying or merging with other steel companies.
- *Niche Player* captures market share with specialized niche products or services.
- *Value Chain Stretcher* expands its business into higher value parts of the steel value chain.

Correspondingly, three weak positions steelmakers should seek to avoid are:

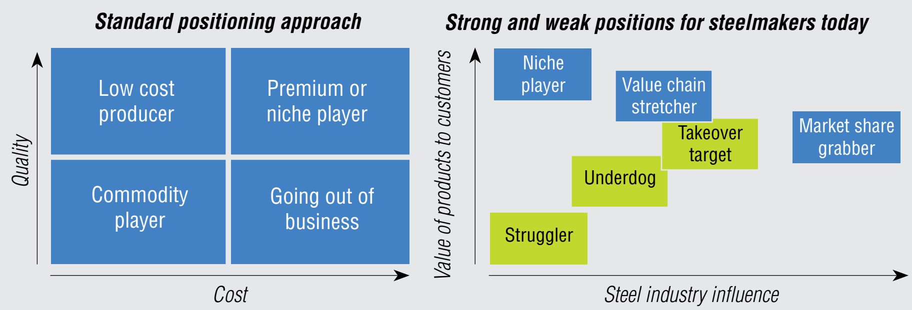
- *Underdog* – This firm is doing okay, but is not getting ahead of its competition.
- *Struggler* – This company strains to stay in business against other competitors.
- *Takeover Target* – This firm is a candidate for takeover (hostile or friendly) by another steel company.

Our analysis of the 80 top-producing steelmakers indicates that only about 40 percent are in strong positions today.

Moving toward success

To take advantage of positioning opportunities available in the steel industry's revitalized environment, companies must first figure out where they are now and then take steps to move into one of the strong positions – Market Share Grabber, Value Chain Stretcher or Niche Player – that will

A different way of looking at strategic positioning can help a company take better advantage of the new dynamics of today's steel industry.



Source: IBM Institute for Business Value.

enable them to succeed in today's changing industry dynamics. Questions company leaders should ask include:

- What are the company's strategic goals?
- What strong position is the right match with those goals?
- Where does the company stand right now?
- What is the gap to getting into a strong position?
- What actions can close the gap?

By assessing these questions and creating appropriate actions, steelmakers can position themselves to assume one of the strong positions in today's revitalized industry. Failing to achieve a strong position in today's changing steel industry could drop a steelmaker into one of the weak positions – such as Underdog, Struggler or Takeover Target – positions we believe are not well-suited for long-term success.

How can IBM help?

- ***Strategy and Change:*** Help to define your strategy and manage change through standardization and simplification of processes and technologies
- ***Component Business Modeling (CBM) tools and Service-Oriented Architecture (SOA):*** Help with selecting where to focus your organization and building flexible IT infrastructures
- ***Selected Industrial Products Solutions:*** Shared Services, Enterprise Application Integration, ERP Services, Supply Chain Management

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References

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2 "World Steel in Figures 2006." International Iron and Steel Institute. May 17, 2006. http://www.worldsteel.org/?action=publicationdetail&id=54

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