Introduction

Conducting a strategic analysis for a business is imperative in developing an organisation's future strategic direction. This paper conducts a strategic analysis of CRH using Porter's five forces analysis, and VRIO framework. Based on the findings from the analysis, the Ansoff Matrix is then used to recommend the possible strategic direction of the organisation.

Selection, Critical Evaluation and Justification of the Choice of the Models

As noted above, three strategic analysis models have been selected to aid in the strategic analysis of CRH PLC, and determine its strategic position. Porters Five Forces Framework is based on five competitive forces, which shape and determine how companies in an industry compete, and what opportunities and threats within the industry; they are faced with (Prasad, 2011). The five forces are: the rivalries intensity within the industry, threat of substitute products, threat of market entry by other potential rival companies, suppliers bargaining power and the buyers bargaining power (Porter, 2008). Porter (cited in Hill and Jones, 2009) argues that the stronger a particular force is in the market the lesser is the ability of the firms to increase their prices and profitability in the industry.

The core advantage of this model in strategy analysis is that it provides insight into the opportunities and threats that work within an industry. Furthermore, Renko, Sustic and Butigan (2011) argue that the model emphasises long term profitability since it is the sudden changes of the industry environment that often cause the biggest problem in formulating future strategies. In terms of disadvantage, Grundy (2006) notes that the model has oversimplified value chains within industries, and does not take into account the fluid nature of industry boundaries. Furthermore, it may be difficult to apply in industries which are complex in nature.

VRIO framework on the other hand is an internal analysis tool which analyses an organisation’s capability and resources based on how valuable, rare, imitable, and organised they are (Barney and Hesterly, 2011). Hence, if an organisation has capabilities and resources which are rare valuable hard to imitate and the organisation is well organized to exploit them, then the organisation would be strategically positioned to enjoy a sustained competitive advantage in its business operations.

Lin, et al. (2012) notes that the core advantage of this model is that it scrutinises the competitive implication of the resources a firm owns and identifies the most critical which drive value creation in an organisation. Furthermore, the model it enhances a better understanding of the firm’s strengths and weaknesses which are crucial in strategic decision making. However, its weak point is that it does not take into account unpredictable circumstance or rapid changes within an organisation which may impact strategy formulation.

Ansoff matrix on the other hand is a strategic tool which generates possible alternative strategic directions which an organisation can take given various product-market options it has. These strategic directions can either be market penetration, product development, diversification, or market development (Taylor, 2012), as shown in the table 1 below. Richardson and Evans (2007) note that key strength of the model is its ability to provide a wide range of options for strategic growth to a business. Hence, it allows a business to weigh up a complex business decision based on four possible scenarios. However, its core weakness is that it is simplistic and may be cumbersome to apply in a highly complex business situation, such as one which operates in several industries and has multiple products.

Table 1: Ansoff Matrix

	Existing Product	New Product
Existing Markets	Market Penetration	Product development
New Market	Market Development	Diversification

Source: Richardson and Evans (2007)

Critical Strategic Analysis of CRH Based on the Above Models

External Analysis: Porter's Five Forces Analysis

Threat of New Entrants

Companies which seek to enter the building industry may be faced with barriers such as high fixed costs and capital investments which may be required to set up a company (Moroney, 2010). This is especially since; production of building materials often has to be in high volumes for them to be economical (Market Line, 2012). Furthermore, production of building materials is highly determined by access to quarries and locations of reserves (Moroney, 2010). This reduces the threat to entry due to higher barriers. The consolidation of the industry through various mergers and acquisition deals in the wake of the recession and the decline in demand for building materials due to declining construction activities in the wake of the mortgage crisis further exacerbated the attractiveness of entering the industry. Hence, even though the switching costs of the end user customers are low which may encourage entry, in overall threat of new entrants is low.

Intensity of Rivalry

In this industry, the market players are fairly similar in terms of product type, business structure and size. Moroney (2010) notes that most businesses in the industry are small and medium sized family owned businesses. Furthermore, exit costs from the industry are quite high due to the high capital investments that have to be used in initial setting. This implies that the degree of rivalry in the industry is high. Furthermore, the poor performance of companies in the industry in overall during the recent years following the recent economic crisis (Market Line, 2012), and the Euro zone crisis (CRH Interim Report, 2012), has exacerbated this rivalry in the industry. Firms are strongly competing to acquire customers in a business environment where demand for construction materials is low and the market is mature and experiencing slow growth rates (Moroney, 2010). Hence, the extent of rivalry involved in capturing higher market share in the industry is high. In overall therefore, rivalry intensity is high.

Buyer Bargaining Power

Although there are large players in the industry such as the Miller Group (Market Line, 2012), the industry is highly fragmented, with small and medium sized firms (Maroney, 2008). This implies that players in the industry can sell to a relatively large number of small buyers. This lowers buyer power. Furthermore, the fact that construction companies cannot operate without building material also weakens buyer power in the industry. However, as Maroney (2008) notes, the building materials are commodities which have little difference between market players. This implies that they cannot compete based on differentiation since it is hard to differentiate a product such as a brick or cement. In essence therefore they compete based on prices, and this favours the buyers in the industry. Furthermore, the fact that buyers have lower switching costs and given that buyers are more influenced by prices and quality rather than by brand loyalty, also favours the buyers in the market (Market Line, 2012). In overall therefore, the buyer bargaining power in this industry is moderate.

Supplier Bargaining Power

The key suppliers in the building industry are the energy companies since production of building materials is energy intensive, and mining companies which provide various raw materials for the production of materials such as cement (Market Line, 2012). The energy companies are relatively large with a few dominating the energy industry (Business Monitor International, 2012). Furthermore, the recent consolidation of industries in this market means that the companies are large and few, thus increasing supplier power. However, most players in the building materials industry often source their own raw materials such as limestone from the quarries and mines they own. This form of backward integration lowers supplier power (Market Line, 2012). On the other hand, since building materials tend to be heavy and incurs high transportation costs, the power of suppliers who provide freight services increases. This is especially so as the distance that can be traversed is limited to about 150 kilometres of radius, where after that few transporters would be willing to do the job due to higher costs than economies of scale (Maroney, 2008). In essence therefore, the bargaining power of suppliers is moderate.

Threat from Substitute Products

Possible substitutes for products produced with the building materials industry may include materials such as stone, steel, glass, and plastics. However, these materials cannot completely substitute all building materials required in the construction (Market Line, 2012). For instance, even though some buildings may be made from naturally accessed products such as wooden blocks or stones, they would still require some core building materials, such as cement in completing the work. Besides this, there may be high switching costs in changing materials designated for constructing a certain building since most construction projects are often designed with certain building materials in mind. Construction regulations in the UK further require that construction materials to be of good quality, and this lowers the threat of any other substitutes not produced with the construction industry under specific controlled conditions that ensure higher quality (Shiers, Lavers and Keeping, 2007). This implies that substitute which may be viable to replace products from the building industry would be hard to find (Market Line, 2012). Hence in overall, the threat of alternative products is low in this business.

Internal Analysis: VRIO Framework

In order carry out VRIO analysis, it is imperative that core resources and capabilities within CRH be identified in order to understand which resources provide the company with a competitive edge. There are various resources and capabilities in the business. These include, talented and skilled human resources (Maroney, 2008), owns quarries for ‘heavyside’ building materials which has fostered vertical integration, and substantial financial resources (CRH Plc, 2012). Furthermore, it has a large number of suppliers and customers, and focuses on localizing products in their areas of operation.

In addition, other capabilities within the company include specialist distribution through DIY stores and builder’s merchants in the ‘heavyside’ building products (Maroney, 2008), federal organisational structure which enables it to capitalise on a local markets, continuous improvement and product re-engineering programmes, small sized corporate headquarters, management development system for its workforce, such as leadership development program. Others include strong informal networks among managers, flexible job description and hierarchy, good communication channels, high acquisition performance (70% of profit growth), strong and rigorous acquisition strategy. The VRIO analysis for each of these resources is as shown in the table 2 below:

Table 2: VRIO analysis of CRH PLC Resources and Capabilities

Resource/Capability	Valuable	Rare	Costly to imitate	Exploited by Organisation	Competitive Implication
Talented and skilled human resources	Yes	No	No	Yes	Parity
Owns quarries for 'heavyside' building materials (vertical integration)	Yes	Yes	Yes	Yes	Sustained advantage
Substantial financial resources	Yes	No	No	Yes	Parity
Large number of suppliers and customers	Yes	No	No	Yes	Parity
Localizing products	Yes	Yes	No	Yes	Temporary advantage
Specialist distribution through DIY stores and builder's merchants in the 'heavyside' building products	Yes	Yes	Yes	Yes	Sustained advantage
Federal organisational structure	Yes	Yes	No	Yes	Temporary

					advantage
Continuous improvement and product re-engineering programmes	Yes	Yes	Yes	Yes	Sustained advantage
Small sized corporate headquarters	Yes	No	No	Yes	Parity
Management development system for its workforce	Yes	No	No	Yes	Parity
Strong informal networks among managers	Yes	Yes	No	Yes	Temporary advantage
Flexible job description and hierarchy	Yes	No	No	Yes	Parity
Good communication channels	Yes	No	No	Yes	Parity
High acquisition performance	Yes	Yes	No	Yes	Temporary advantage
Rigorous acquisition strategy	Yes	Yes	Yes	Yes	Sustained advantage

From the above analysis of various resources and capabilities in CRH plc using the VRIO framework, it can be noted that a number of resources and capabilities in the company are essentially valuable, rare, imitable and the company has the structure and mechanisms in place to effectively organise and exploit these resources and capabilities effectively. These resources and capabilities are the ownership quarries for ‘heavyside’ building materials which have enhanced vertical integration in heavyside building materials, specialist distribution through DIY stores and builder's merchants in the 'heavyside' building products, continuous improvement and product re-engineering programmes, and rigorous acquisition strategy.

By vertically integrating in the heavyside building materials market, the company has taken a commanding place in this market in various markets of its operation. Furthermore, the unique specialist distribution system the company has in 'heavyside' building material has made this product segment the domain of the company in the industry (Maroney, 2008). In addition, the organization's acquisition process which is "difficult to replicate" and which follows a long process of coaching and familiarization with the potential companies to be acquired, explains its historically high levels of acquisition performance with 70% of the growth in profit being attributed to this unique strategy.

In essence therefore, these four core resources and capabilities provide the highest potential for sustained competitive advantage in the company. They enhance the company's competitive position in the market and hence should be effectively exploited to further gain leverage and drive value creation in the organisation (Andersen, 2011).

Conclusion

From the above analysis it can to be noted that the external environment is fairly favourable. An internal analysis revealed that CRH PLC has four critical resources and capabilities which would provide sustained competitive advantages to the company in the industry. These include strong vertical integration in the heavyside building materials, specialist distribution networks for these products, continued improvement capability for its products as well as a rigorous acquisition strategy. These factors drive value creation in the organisation.

In view of this analysis, four strategies which the company can take include market development, where the company can expand its products in a new market segment such as building designers. One is market penetration, where the company expands into new markets such as China and India, which are rising in the construction industry. The other is product development strategy where the company can exploit new product segments such as manufacturing of wood blocks for building. Finally is the diversification strategy, where the company can develop new products such as developing an IT consultancy business function which caters for construction and building materials firms in terms of IT support and IT services.

In market development, the organisation would have to identify new markets which it can serve with its current product offerings. Analysing this strategy based on the above four core capabilities and resources, it can be noted that the core challenge in this strategy is that the designer’s market may not be a sustainable market segment. These segments may already be infused with the construction industry and therefore may already be catered to. In terms of market penetration, the company has effective capability of acquiring firms in new markets, and can further use its strong distribution network to enhance performance in this new market. This strategy is also considered as the least risky of all the other three. Product development on the other hand may be risky for the company, and would not effectively utilise the organisation’ existing resources and capabilities optimally. However, with the organisation’s capability to improve its products, this strategy may be viable. The last strategy is the diversification strategy. This is the riskiest strategy of them all and it would not use the organisations core sustainable resources effectively since new distribution channels would have to be identified. In overall therefore, the best strategy for the company which would drive value creation based on the core value driving resources in the organisation is market penetration. This strategy is relatively risky, will optimally use the core resources and would increase the organisations market share and profitability in the shortest period of time.

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