7.2. Appendix B: Porter's Five Forces framework applied to Holcim (US) and the US cement industry

Threats of new entrants and Entry barriers:

- The competitor that achieves an absolute cost advantage gains a definite advantage as only with large productions profits can be made.
- The learning curve in this mature market is steep, marginal learning is almost flat.
- Access to inputs creates an enormous barrier, another reason for Holcim (US) to integrate vertically.
- Government policies are very strict, active lobbying is constantly needed.
- Economies of scale represent one of the biggest barriers. Only through volume can profit be attained.
- **Capital requirements are the paramount reason not to enter; in the case of Holcim (US) Net Operating Assets ascend into the thousands of billions.**
- As a consequence of capital requirements, switching costs are astronomical.
- **The second most important threat are the high distribution costs, this single Achilles heel, cuts every profit made through cost leadership in production.**

Supplier power:

- With capital-intense entry barriers, highly concentrated supplier industries are generated.
- Volume, volume, volume!
- The chemical mixture of cement is government regulated, little room for lower cost alternatives are possible.
- Differentiation costs are high, little demand exists for niche cementitious products.
- Thriving for cost leadership in the cement industry leaves substitutes' cost advantages as little marginal improvements when considering government regulations.
- Power in the supply chain is located greatly towards the consumer, starting links need forcefully vertical integration of gain power.
- Average costs in the industry are high compared to prices paid, however the more vertical integrated a company is, the higher the margins are.

Degree of Rivalry

High exit barriers

- Oligopoly
- Product similarity
- Market is mature and slowing down.
- High Brand identity needed
- Similarly structured rivals

Buyer power:

- Customers have small bargaining power
- Customer loyalty is always encouraged through rebates and discounts, for example.
- Volumes are usually high, but as customers range in all possible sizes, this is not mandatory.
- Low price sensitivity due to more inelastic supply.
- Usual high buyer's concentration.
- Little product differentiation but well observed by consumers.

Threats of substitutes:

- Consumers can switch to other suppliers easily, product differentiation is limited and quality controls are harsh, done by consumers as well.
- Well performing substitutes to concrete products are rare to find.
- The necessity for this product mainly correlates with the development and pace of the country's economic conditions, but never stops to be in primary demand.

Industry value Chain – from raw materials and other inputs, to focal industry, to channel, to end consumer

Source: Adapted from Carpenter & Sanders, (2007), p. 99; information of the cement market is my own