Group 4

MGMT 490

Gomez

Dear Mr. Lorenzo Zombrano, President of the Board:

Our expert consultants have conducted an integrated and forward looking examination of your company. Based on our expertise as consultants in business strategy, we conclude the following issues regarding your company position in the industry and would like to suggest the following strategies.

Strengths and Core Competencies:

* Globalization
* Acquisitions
* IT Sector – developing increased technology to better predict delivery speeds
* Leadership
* Defending self against competition through government assistance and operating various locations
* Customer Service
* Able to merge into new markets quickly thanks to dynamic cultural analysis
* Government relationships
* Factories located in countries – helps to lower transportation costs and therefore increase revenues

Globalization:

Benefits to CEMEX

CEMEX has rapidly grown throughout the years, which has lead them to become the third largest cement company in the world. There have been many strategies to direct them to this accomplish, but globalization was the key to saving the company. As a result, CEMEX was able to continue to be a threat to their competitors, Holderbank and Lafarge. Although globalization has positively affected CEMEX, there are still alternative markets for the company to grow.

Global Expansion and Strategies:

Potential Markets

The CEO of CEMEX, Lorenzo Zambrano, is constantly searching for new strategies to expand to other countries to continue CEMEX’s success. Potential countries that CEMEX could dominate in the cement industry are Taiwan and Japan. These developing countries contain the characteristics that CEMEX searches for in a potential investment.

International opportunities of CEMEX are seen as the “ring of grey gold.” In a world that is constantly changing and hungry for growth and improvement, CEMEX has been able to fulfill their demand. For the long-run demand, high populated and warm climate areas positively affect their expansion. Long-run demand is directly related to GDP. Therefore, developing countries are prime places for CEMEX’s expansion because it builds their short-run demand that is based off construction expenditures. The high demand internationally has made CEMEX the largest international trader for cement in the world.

During Dr. Gomez’s lecture, he touched on how CEMEX went through a downfall when they were relying on revenues from Mexico alone. He an insightfully restated a quote from Zambrano, “in order to save CEMEX locally, they needed to expand globally.” They took their business model and realized that their strength of producing cement at a high quality, great customer service, and effective post-merger acquisition. First, their ability to enter countries such as Venezuela and merge with their leading cement companies allowed them to have a great influence on the industry because they held a large market share and overtook the competition. From the article, “Globalization the CEMEX Way,” CEMEX’s success is due to their mergers and acquisitions. Their understanding of cultures similar to Mexico and ability to learn and research new cultures have brought them to where they are today. Secondly, CEMEX was able to quickly bounce out of the peso crisis in 1994 because they were already in foreign markets by this time. Since Mexico was facing hardships at the time, they were not developing new expenditures, which would have greatly damaged CEMEX’s revenues. However, this crisis could be seen in a positive light because it allowed CEMEX to evaluate their foreign business and put emphasis on other emerging markets that would allow them to be a dominate company in the industry.

The facilities in foreign countries such as Spain proved to be the greatest benefit to CEMEX’s globalization. CEMEX put a facility in Spain, which made distribution more efficient. In addition, this lowered the amount that they needed to pay on import tax. However, the major gain of these facilities was its ability to allow CEMEX to boost their customer service because of vast speed in the distribution process. In Spanish cultures, doing business requires trust between both parties. By having a facility in Spain, CEMEX understands the business practices and culture of the people in Spain. As a result, their clients felt at ease knowing that CEMEX had made a large investment in their country and CEMEX came off as a Spanish company instead of a foreign company from Mexico. Finally, they were able to build strong relationships with the lower income population because of their ability to penetrate the market. They offered a low price point, which allowed them to supply lower budget projects such as Patrimonio Hoy. CEMEX was able to offer the opportunity to provide more expenditure to a wide range of clients. Also, CEMEX greatly benefitted from globalization when they sold their facility in Sevilla Spain for $260 million, which allowed them to invest in Indonesia. The impact of their investment increased to four times the amount of impact they had in Spain. Consequently, CEMEX’s strategy to globalization offered more opportunity to build relationships and reach more international markets.

Similar to CEMEX’s other acquisitions in foreign countries, Taiwan would be a market that CEMEX could expand in. Taiwan has the nineteen largest economy by purchasing power in the world and is rapidly growing. Since long-run demand is related to GDP, Taiwan would be a beneficial investment for CEMEX because Taiwan’s GDP was $216.5 billion in the 1990’s and is only increasing. Additionally, manufacturing is 37% of their GDP (Asian Info). Therefore, if CEMEX could dominate in Taiwan, their revenues would increase because Taiwan has begun to become industrialized and manufacturing more and more each day. According to Exhibit 5 from the CEMEX case, none of the Big 6 companies have invested in Taiwan, which would make CEMEX the industry leader the country. A factor that CEMEX takes into account before entering a new market is being able to control at least 25% of the market, which is a feasible goal since the competition is limited. However, CEMEX would need to research Taiwan’s system of doing business and relate to the people before entering the market. Zambrano is already aware of the hurdle that needs to be addressed before entering markets when he stated, “We have seen many cement companies that use their capital to acquire other companies but without making the effort to have a common culture or common processes, they get stagnant”(Globalization the CEMEX Way). Taiwan would be an expansion that would advance CEMEX against the Big 6 competitors.

Japan is another market that would be a positive potential market to expand in. Technology is rapidly advancing in Japan, which has permitted them become more advanced. According to Japan-Guide, Japan has the third largest economy and the Yen is becoming stronger. Similar to Taiwan, none of the Big 6 companies are in Japan yet, which would give CEMEX an advantage over its competitors. A large population is another factor that CEMEX takes into consideration before expanding. Since Japan has a large population with a high population growth, CEMEX would be able to be the leader in Japan. Moreover, Japan has a strong industry for manufacturing and construction. There is plenty of opportunity to build Japan and clients are taking advantage of it. Potential CEMEX clients would enjoy the quality customer service that CEMEX has to offer, which would benefit CEMEX against the Big 6 if they entered the market as well. Parallel to Taiwan, CEMEX would need to research business practices and etiquette of doing business in Japan. The CFO of Wal-Mart Argentina spoke about the differences in business cultures between Argentina and Japan. CEMEX would need to understand that business deals have an unlimited amount of time and Japanese clients refuse to be rushed. They enjoy getting to know their business partners, but once the deal is made, it is a lifelong relationship. These minimal signs of respect would give CEMEX the upper hand against competitors in Japan.

2008-2009 Crisis Affects:

How CEMEX Was Affected

The 2008-2009 global crisis affected the entire world, degrading company’s profits. CEMEX’s capital and investments were greatly affected. This caused the company to have to fold the non-Mexican assets into its Spanish operations and altered their abilities for financing new acquisitions. This further impacted the company causing over 7,000 layoffs therefore causing the company to lose one of its key assets – its human talent.

Recommendations

We propose that CEMEX:

* Sell non-core assets
* Invest in new forms of energy – for instance: wind power, solar power, hydro-power fueled plants
* Refinance their short term debt of $15 billion in order to reduce monthly payments and use the capital saved to invest back into the company for future growth
* Keep human talent and distribution capabilities – needs to maintain as a number one priority because of the benefits it brings to the company’s success
* Expand in emerging markets
* Concentrate on dynamic markets
* Keep high growth via selective investment
* Fortify leadership utilizing technology
* Hire women into management team in order to facilitate diverse perspectives

Post 2009-2010 Expansion:

Potential Markets

As a result of the 2009-2010 crisis it will be necessary for CEMEX to expand into new markets with a different expansion strategy in order to continue growth and increase market share. We propose that CEMEX begin investigating potential facilities in the Middle East – specifically Qatar and Dubai. Qatar is hosting the World Cup 2022. It will cost $138 billion to build a facility to host the event. This is a great potential market to penetrate for CEMEX. By investing in a facility in Qatar they would have the opportunity to negotiate with the government in order to form contracts to provide the cement for the facility. Additionally, the country recently discovered natural gas, which can be processed to produce ethane, propane, butanes, pentanes, and higher molecular weight hydrocarbons, elemental sulfur, carbon dioxide, water vapor, and sometimes helium and nitrogen. This will serve as a great resource for the country and aid in its continued growth and growing economy. Dubai is a major trading hub experiencing continued growth. Not only does the emirate experience economic stability but it is also a tourist attraction, hosting the largest mall in the world, the tallest building in the world, the only seven star hotel in the world, as well as various other attractions. Due to the alluring infrastructure, continued growth and expansion is occurring. Because of this CEMEX great opportunity to expand and be one of the fist cement companies to establish itself and therefore capture great market share and profitability.

Final Thoughts:

Thanks to CEMEX’s powerful globalization, precise acquisitions and excellent customer service the company was able to attain a stronghold in the cement industry throughout the world. Through the positioning in Dubai and Qatar CEMEX will be opening the door to a great opportunity for continued growth and expansion which will reap profitable benefits for the company. We sincerely thank you for choosing our consulting expertise and look forward to our continued work with your company.