

Building A Global Business Model

15.220 Global Strategy and Organization

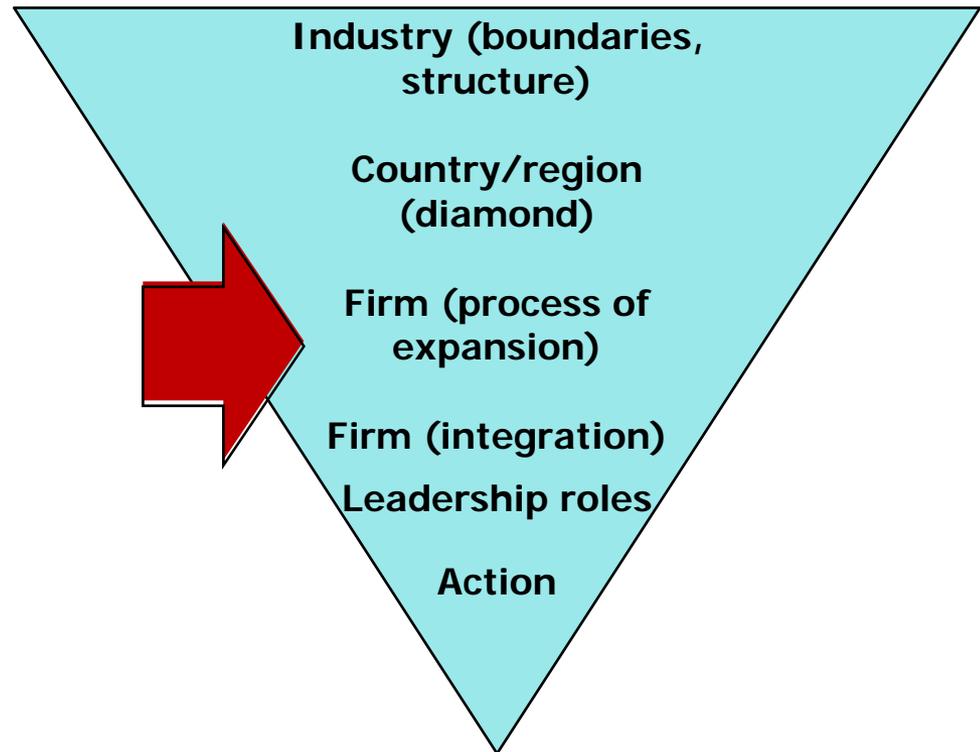
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Today's Focus -- CEMEX

- Understand how firms “internationalize” by “exploiting” home base advantage – RATs and CAGE
- Understand how firms “enhance” capabilities by creating “virtual diamonds”-- Platforms
- From “middle” country base



Why Cemex?

- Major success in industry with moderate “globalization drivers”
 - #1 Concrete, #3 Cement, #1 Cement transport
- Major success from a country without obvious advantage
- Interesting business model
- Interesting global organizational structure



Process of Growth & International Expansion

1900 06 Founded
31 Cementos Portland and
Cementos Mexicanos Merged

1970s
70s National Via Acquis.
76 Lists on the Mexican St. Ex.

1980s
82 Debt Crisis / Exports Program

Zambrano in Divest non-core – bulk up

89 Holderbank → Apasco

1990s 90 US Anti Dumping

TOLTECA, MX (1989)

SPAIN (1992)

PANAMA (1994) VENEZUELA (1994) TEXAS (1994)

DOMINICAN REPUBLIC (1995)

COLOMBIA (1996)

99 NYSE Listing

00 S&P Investment Grade

2000s

COSTA RICA (1999)

PHILIPPINES (1997)

INDONESIA (1998)

EGYPT (1999)

SOUTHDOWN, USA (2000)

BANGLADESH (2000)

FRANCE (2001)

THAILAND (2001)

PUERTO RICO (2002)

RMC, UK (2005)



Why Internationalize?

- Why did Zambrano decide that CEMEX had to globalize in order to remain independent?

Globalization Drivers in Cement Industry*

Market similarity

Scale economies

Comparative Advantage

Scope economies

diversification, pooling,
Transfer of best practice,
e.g. energy

Initially none, late found RATs
from emerging markets base

Forcing open, but
barriers remain

Regulation



How helpful was Mexican diamond?

- FCs-- quite good re engineers.
- FCs -- not so good in terms of access to, cost of capital
- DCs quite interesting re RATs
- Rivalry --CEMEX's market power results in high home profitability

Student responses removed due to copyright restrictions.



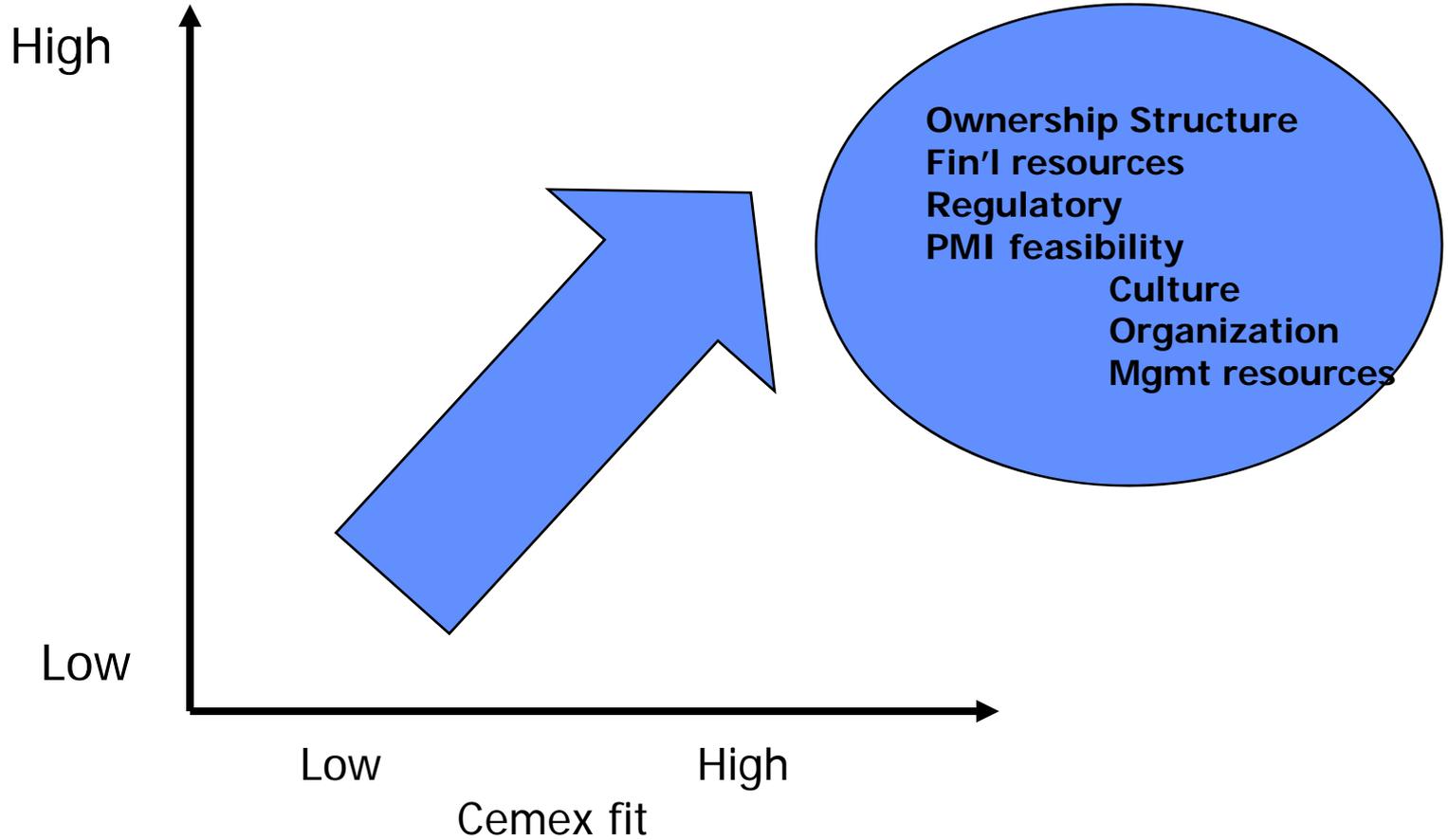
How to Internationalize?

- What are the key stages of CEMEX's international development since the early 1980s?
 - What were the reasons for each stage (opportunity to exploit or enhance)?
 - What challenges did CEMEX face at each stage?
 - What did Cemex ultimately gain from each stage?
- What are the elements of CEMEX's Business Model that have enabled it to grow internationally in a “local” industry from a home base that does not have strong advantages?



Targeting markets

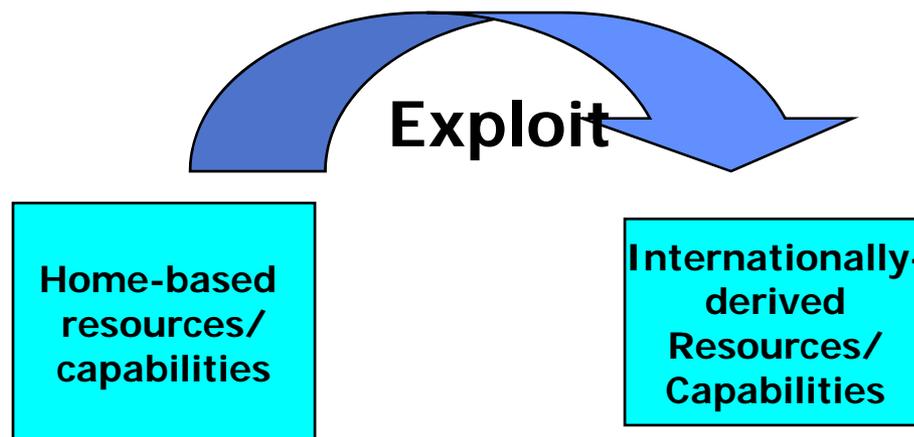
Country attractiveness
(growth, industrial structure, regulation, risk)



Business Portfolio
Operations overlap
Risk-return

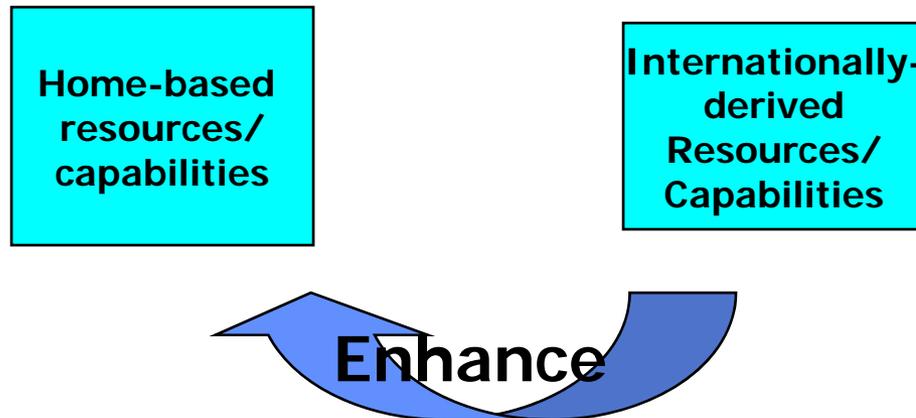
Competency Exploiting Internationalization

- RATs tests your potential to **exploit** existing competencies internationally:
 - Are they **R**elevant?
 - Are they **A**ppropriable?
 - Are they **T**ransferable?



Competency Enhancing Internationalization

- Tap into Strategic Platforms that enhance core competencies
 - Countries/locations that facilitate development of capabilities that provide access to other segments, activities
 - Countries/locations that create/extend the virtual diamond



Stepping Out --Why Spain?

- Bulk up, in competitors face
- Attractive, fit
- Explore with study, terminals

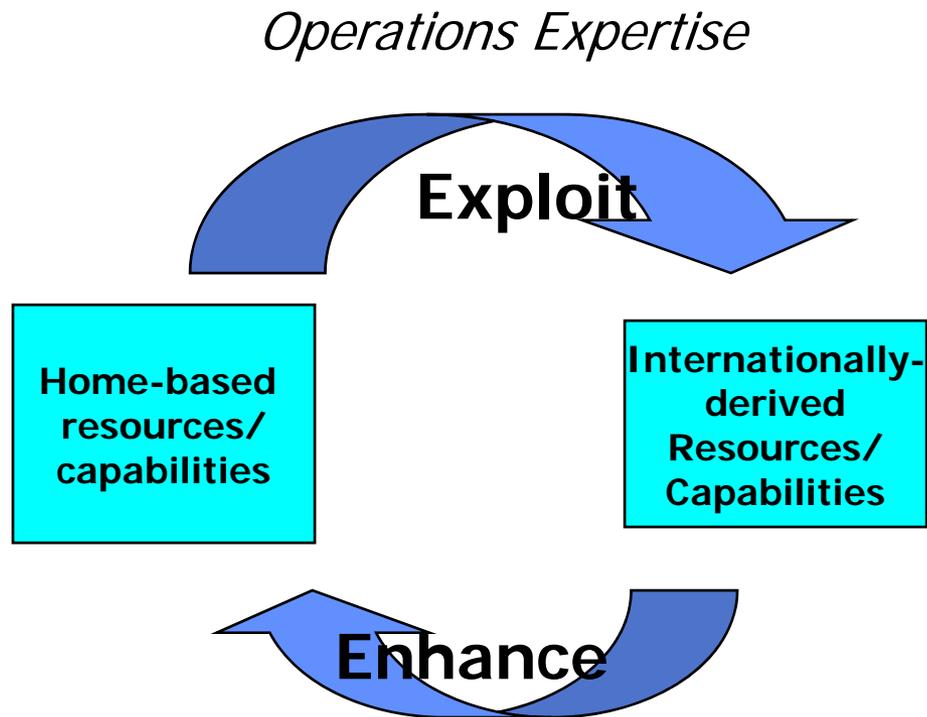
- RATs (exploit)
 - Discovered that operations capabilities were are plus – took about 2 years 7 >> 24% margins

- Diamond (enhance)
 - Increased access reduced cost of capital (financial platform)



Stage 1: Spain

- Initially defensive



Cost of Capital

PMI Process

Why Caribbean?

- Match transport model
- Integrate ops
- Venezuela (Vencemos) provides export platform for Caribbean and US (not subject to anti-dumping)
- Colombia somewhat different (large inland market)



Change in Integration Process

- Early model
 - Mexican takeover
- Current model
 - The CEMEX Way



Business Model Innovations

- Retail bag customers
 - What does customer want
 - Benefit – definition, almost lock in, more stable demand
- Ready mix customers
 - 20 minute guarantee

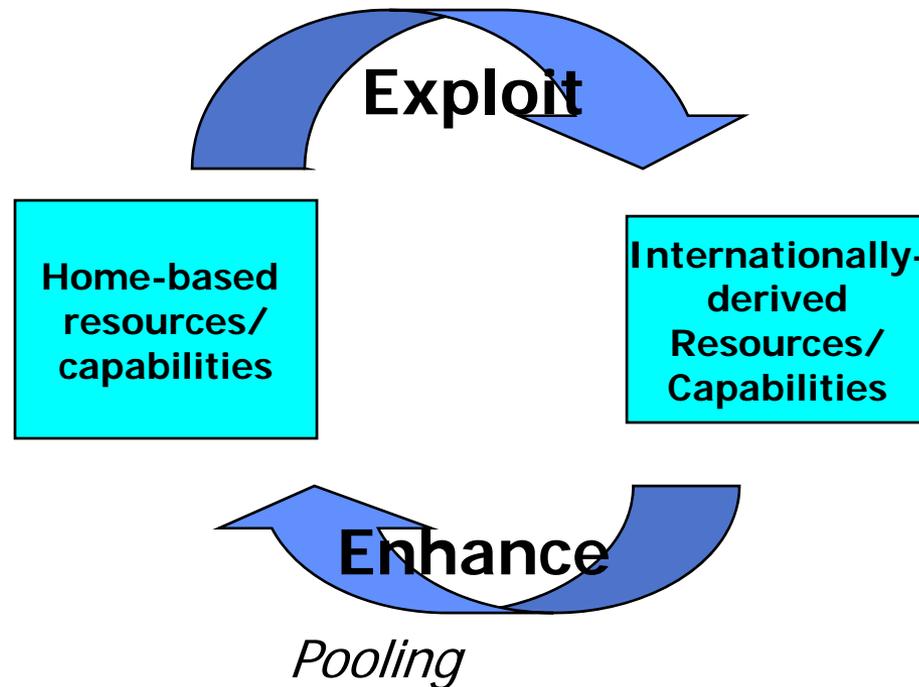


Stage 2: Latin America/Integration

Operations Expertise

PMI

"Branded bags"



The Cemex Way

Stepping Up

- What are the key opportunities and challenges that Cemex now faces having joined the big leagues (with acquisition of RMC, Southdown, and Rinker)?



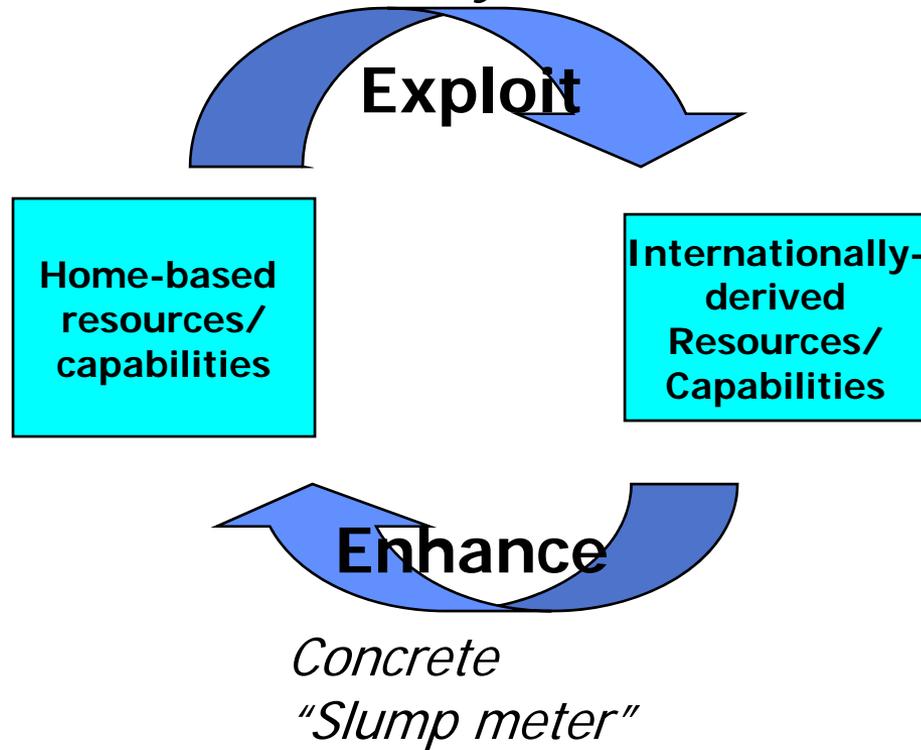
Stage 3: RMC/Rinker

Operations Expertise

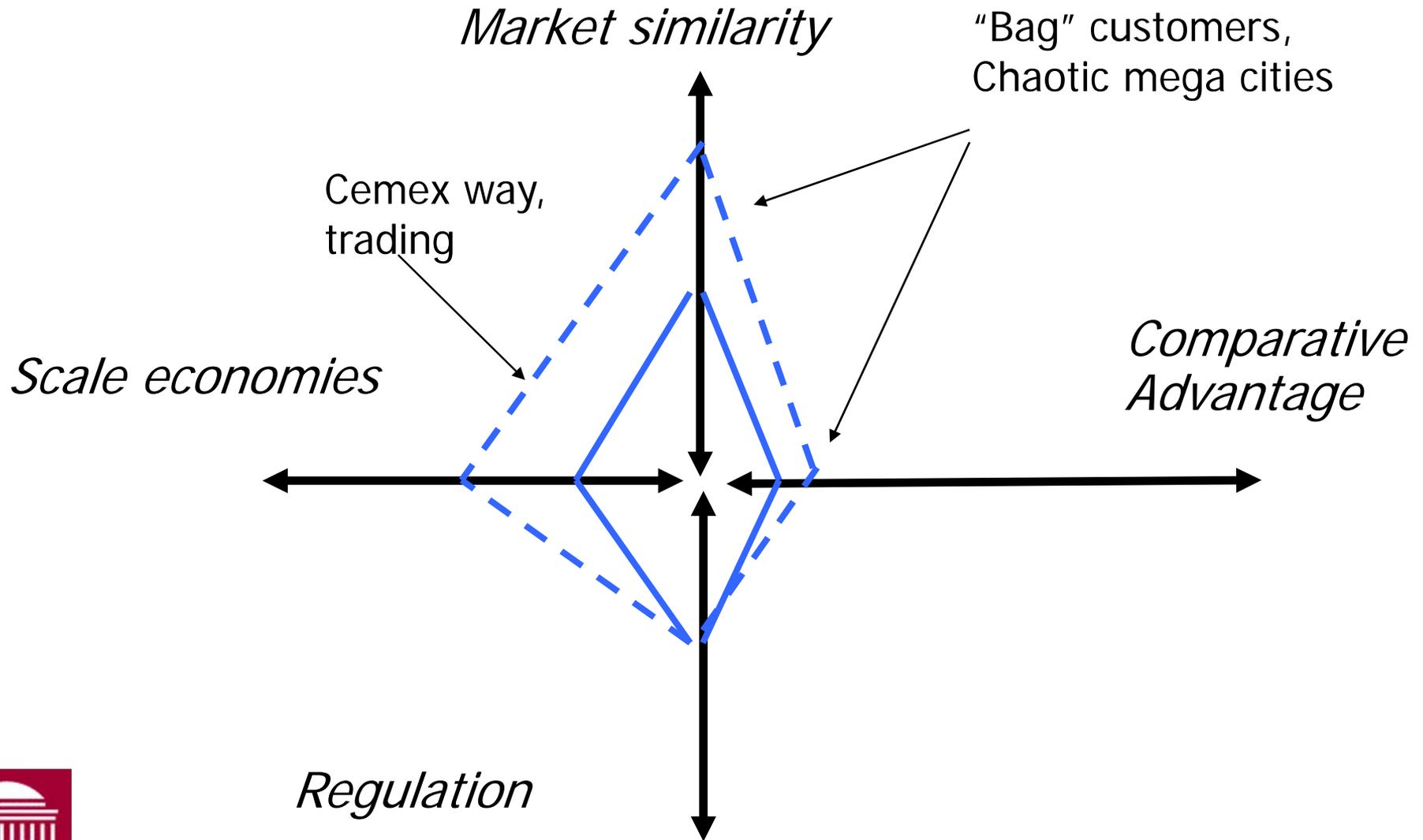
PMI

GPS

Cemex Way



Industry Globalization – Cemex



For Wednesday

Arbitrage and Outsourcing

- Using an example from your own firm:
 - Describe the operation including its product/geographical focus,
 - whether it does product development as well,
 - whether it is responsible for its local/regional market as well,
 - how it fits into overall organization, e.g. part of global business unit, country unit, etc.
 - Using Ferdows' terminology, is it an offshore source, and outpost, a server, a source, a lead, or a contributor?
 - How does this role relate to the "diamond" for the country and for the concepts of arbitrage as outlined by Ghemawat?

