

Teaching notes

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CEMEX: INTERNATIONALIZATION BASED ON INNOVATION

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Synopsis

After the development and implementation of an expansive internationalization strategy and a stage of constant growth in the local Mexican market of the company Cementos Mexicanos, CEMEX, the directors must evaluate the viability and entry into the Latin American market, considering the different economic, political and commercial conditions of countries such as: Argentina, Chile, Colombia and Peru.

Under the direction of Lorenzo Zambrano, the committee seeks to implement an ambitious plan to open up to the potential market and determine the conditions of entry, the type of alternatives that could be made to reduce the barriers of entry and competition in that market and the possibilities of exploitation and distribution of the product. This is based on the pillars and execution of the strategy in the international markets previously captured by Cemex.

Cemex's vision was to "consolidate itself as an efficient and profitable organization for its shareholders," and the market that provided them with the best conditions thanks to its economic evolution, reflected in the variables of inflation, GDP growth, level of commercial opening of the market and potential for development in infrastructure works, was Colombia.

Teaching Objectives:

Deliver a series of knowledge providing the pillars and the development of an aggressive strategy of internationalization of a company in the cement sector, where the main economic conditions for the opening of a new market would be analyzed.

The confrontation with the decision-making in the opening of a developing market and the dilemmas of entry, allows the student to evaluate the best alternatives of penetration to the potential market, having as an option a merger, acquisition or the creation of a new company.

Develop criteria for the incursion and selection of markets, maintaining clarity on integration scenarios, to develop the competition strategy in the new market.

Target Audience

Graduate and master's students in business administration, with the need to expand their knowledge in the development of internationalization strategies that are supported by the evaluation of alternatives such as: mergers or acquisitions in highly competitive markets and with high entry barriers.

Case Type:

Decision enforcer: With this case it is intended that the reader has various tools to evaluate alternatives when entering a new international market and determine what decision to undertake around the economic performance of the country and the industry.

The context of the industry, the strengths of the company, and its competition in different markets will be exposed, where the challenges it faces for the execution of its strategy are identified and through this, the reader will have mechanisms, and facts that direct him to explore different options for corporate decision-making when facing a globalization or opening of markets.

Structure of the Case:

Case opening: This session introduces the origin of CEMEX, its leader, and sets out the strategy and vision of the company's management.

In this component it is intended to deliver a summary that captures the reader's attention around the protagonist.

Presentation of the case by professor: 15 minutes

Explanation of the dynamics: 10 minutes

Sessions to cover: "Lorenzo's big dream" until the session "Cemex strategy".

Context: At this point, the economic, political and temporal context of the company Cemex and the Colombian cement market is introduced; and the challenge faced by the cement company's management team.

Sessions will cover: "CEMEX's incursion into the Colombian market" until the session "the cement industry in Colombia".

Discussion of questions by students: 30 minutes

Theory: At this point the concept of corporate strategy is exposed, in which
 the students would support themselves for the development of the case, taking into account the analysis of the comparative advantages between the different economies of Latin America and how CEMEX applies it to make decisions.

10 minutes of theoretical development.

Closure: raises different questions that Cemex and its management team are faced with, taking into account the decision to venture into the Colombian market:

Discussion of the students and the teacher around the final questions: 30 minutes

Closing by the teacher: 10 minutes

Theory:

- The forces of Porter
- Internationalization: location of production
- Internationalization: opening of new markets
- Mergers and acquisitions
- Geographical diversification
- Horizontal Integration

Discussion questions

1. Given Zambrano's expansion strategy and the challenges to inclusion in new markets, what should be the variables to consider when making a decision towards opening new markets?

The economic and political conditions of the country to be ventured and the prospect of growth of the cement sector. Which can be seen in exhibits 5 and 6.

The analysis of Porter's strengths, determining the barriers to market entry, taking into account the strengths of the company.

2. Do you think it is a wise decision for Cemex to enter the Colombian market?

Yes, based on the trajectory that Cemex had, its previous approaches with the Colombian market players and the performance of the Colombian economy compared to other countries in the region. According to Exhibits 5 and 6, it exposes sustained GDP growth and controlled inflation vs. other countries in the region.

3. What actions would you take, as a member of the management team, to venture into Colombia?

The analysis of the local market, based on the strengths of the development of that country and the growth expectations of that industry, it is important to carry out the due diligence to recognize the main players, the competition they would have to face.

Recognize the objectives surrounding CEMEX's strategy, which motivate the diversification of the business and how these have been developed throughout its history. In one way these strategic objectives are the determinants of the actions undertaken to achieve them. In this order, a cause-and-effect analysis is proposed, as a tool to found generalization criteria.

4. Identify the advantages and disadvantages of the different options you have considered?

Understand how CEMEX's strategy has influenced decision-making for acquisitions, mergers or developments in new markets. Strategically, CEMEX has ventured into Mergers & Acquisitions as part of its purpose to grow by opening new markets and diversifying its operating and market risk.

The needs in a market internationalization strategy are covered through mergers and / or acquisitions that would generate growth opportunities for companies, achieving through these increase market share, facilitating the development of economies of scale, as follows:

	Advantages	Disadvantages
Merger	<ul style="list-style-type: none"> •Participation Costs, risks and earnings. •Access to competition data and knowledge. •Politically acceptable. 	<ul style="list-style-type: none"> •Divergent and interests of the partners objectives. •Limited patrimony and control of operations. •Difficulty to govern internationally.
Operation in virgin soils	<ul style="list-style-type: none"> •Complete assets and control of operations. •Knowledge protection. •Ability to control globally. 	<ul style="list-style-type: none"> •Politically potential problems and risks. •Development high costs. •Add new capacity to the industry. •Low velocity entry (regarding acquisitions).
Acquisitions	<ul style="list-style-type: none"> •Same regarding virgin soil (above). •No new capacity addition. •High velocity entry. 	<ul style="list-style-type: none"> •Same regarding virgin soil (above) except because it adds new capacity and low velocity •Integration problems after acquisition.

Figure 1 Reference: <http://www.scielo.org.co/pdf/diem/v12n1/v12n1a10.pdf>

5. Given the level of uncertainty, do you think the Colombian cement market would be a source of value for Cemex?

Yes, since the cement market in Colombia was an evolving market that had already captured the foreign investment of HOLCIM, one of the global players in the cement industry. In addition, Colombia's macroeconomic performance stood out compared to the countries of the region.

On the other hand, through the acquisition of Samper and Diamante cements, the cement company gained the leadership of a new market, with a privileged position as the second most important producer in Colombia. It is important to note that in the years following the acquisition and on account of the dynamics of the industry Cemex significantly increased its production volumes in this country.

Similar Cases and readings:

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- <https://repository.urosario.edu.co/bitstream/handle/10336/3343/Fasc%C3%ADculo101.pdf?sequence=1>

- <https://www.portafolio.co/economia/finanzas/liquidan-instituto-colombiano-productores-cemento-273666>

- El crecimiento económico colombiano en el siglo XX: aspectos globales
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