



## **CEMEX: INTERNATIONALIZATION BASED ON INNOVATION**

### **Lorenzo's Big Dream**

Appointed CEO of CEMEX, Lorenzo Zambrano became the leader of the company his family had built, having made a career with the company. His first big dream had materialized. He now had to convince the Managing Committee to implement his ambitious plan based on internationalization. The economic opening made Zambrano think that there were great opportunities in the global market.

Lorenzo Zambrano graduated as an Administrative Mechanical Engineer at the Monterrey Institute of Technology and Higher Studies in 1966 and then obtained a Master's degree in Business Administration (MBA) from Stanford University in the United States, graduating in 1968. After completing his studies, he joined CEMEX and for a little over 15 years he held all kinds of positions, from operational to executive. In 1985 he was appointed CEO and 10 years later he became Chairman of the Company's Board of Directors.

Lorenzo's great dream from a childhood was to take CEMEX to the top of the world of the cement industry. Recognizing that reaching No 1 would be a titanic challenge. With such an ambitious purpose, CEMEX was to consolidate its capacity to reach new markets through an aggressive, efficient and profitable expansion strategy for its shareholders.

### **Origins and Trajectory of CEMEX**

Cementos Mexicanos, now known as CEMEX, began operations in 1931 as a result of the merger of Cementos Hidalgo (created in 1906) and Cementos Monterrey (created in 1920) in Mexico, reaching a daily production of 20,000 tons of cement. CEMEX was consolidated through multiple acquisitions in The Mexican territory, and in 1976 with 500,000 tons of daily production, it became listed on the Mexican stock exchange.

For CEMEX there is a before and after Lorenzo Zambrano, because with his arrival at the head of the company in 1985 a philosophy of innovation and growth is introduced, motivated by the improvement of processes, optimization of products, qualification of human talent, increased capacity of plants supported by an economy-of-scale business model, which aimed to spread geographically to enter foreign markets, and thus to overcome the lack of knowledge of these. Zambrano led this internalization strategy reaching great results in the mid-90s.



This is how in 1992, CEMEX entered the Spanish market with the acquisition of the two leading companies: Valenciana and Samsón, with which, four years later, CEMEX became the third largest cement producer in the world. In 1994 the company ventured into the Venezuelan market with the acquisition of Venezolana de Cementos, the largest company in that market. Then it reached the North American market with the purchase of the Balcones Cement company. In 1995 they bought Cementos Nacionales in the Dominican Republic.

In the new millennium, they acquired a cement company in Bangladesh and entered into a strategic alliance with Universe Company Ltd., of Taiwan, to distribute cement to Asia. It continued its expansion by acquiring Southdown, the largest cement company in the United States with a production capacity of 11 million tons per year, consequently becoming the largest cement producer in the United States.

In 2001, it continues to increase its stake in Asia with the acquisition of Saraburi in Bangkok. In 2005 it expanded into European markets with the acquisition of the RMC group in England, with the aim of gaining space in European, American and African markets. In 2007 it made an investment to build a production plant in Spain and to strengthen itself in that market.

### **CEMEX Strategy**

Under Zambrano's direction at CEMEX, the company was internationalized, based on the mission of "globally satisfying the construction needs of its customers and creating value for its shareholders, employees and other key audiences, consolidating itself as the most efficient and profitable solutions company for the construction industry in the world.<sup>1</sup>"

From 1986, year after year CEMEX adjusted its corporate strategy to create greater value for its shareholders. The first step toward achieving that goal was by optimizing the investment budget, concentrating actions on plant improvement and acquisitions in emerging countries that generated better returns, focusing on conquering highly competitive markets.

In addition, the business diversified into cement, concrete, ready-mixed and aggregate products, eliminating other business lines, thereby optimizing the use of the installed production capacity of the plants that were its main assets; reducing operational risk, and improving financial expenses and cash flow.

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<sup>1</sup> Vision: Annual Report CEMEX 1987



At the end of 1997, the company's assets outside already exceeded local investments in Mexico. Now the *core* of the company was in the foreign market, as Lorenzo Zambrano predicted.

In 1998 Lorenzo Zambrano focused on the human talent of the organization, for which a standardized compensation plan was established, while executives were trained abroad and the professional career developed individualized in the company. This program was able to break down geographical and cultural barriers that underpinned the multinational-multicultural approach that the company was interested in promoting toward the client. The following year, CEMEX was much more competitive in sales, due to the success in implementing the corporate strategy. Now the focus was on cement and its identity as a product, with which the company managed to position itself in the markets in which the company was present (Exhibit 2).

To continue strengthening the product portfolio, in the year 2000 the company concentrated its efforts on cement and ready-mix concrete, targeting competitive markets with high returns, with which the company consolidated itself as one of the most solid in the industry based on its level of production. The strategic approach of 2001 strengthened distribution networks and the implementation of new processing technologies, while promoting alliances that allowed vertical integration of the operation. It was achievable to reduce costs, significant logistical improvements and greater customer satisfaction. This was able to promote growth in the markets in which the company participated.

In 2002, CEMEX formulated and implemented the *Know-Why* strategy, which took advantage of the organization's knowledge to anticipate the behavior of the markets where it had a presence. The *Know-Why* is formed by the experiences and organizational skills strengthened by logistics networks and synergies with other sectors to offer the client packages of products and services.

The success of the Company forced to propose a strategic scenario that would account for its experience, this was how flexibility and performance emerged as value proposals for the company. Competitiveness, profitability and management were supported in:





This way, CEMEX established a direct relationship between savings and good practices, with which the company's flexibility resulted in the creation of value.

### **CEMEX's incursion into the Colombian market**

CEMEX's arrival in a new market had become a ritual for Lorenzo, to the point that not all members of the steering committee knew the details of the negotiations. There were even codenames for confidential transactions. Black Shadow would be the code name that Lorenzo would give to this complex transaction to reach the Colombian market.

The purchase of Cementos Diamante, followed by that of Cementos Samper, with which CEMEX enters the Colombian market, was consolidated in a secret meeting of CEMEX's management team; based on the concept of an investment bank and a Colombian advisor with extensive experience in this type of transactions. Violy, Byorum & Partners, an investment firm based in New York, formulated the analysis of the Colombian economy, which would support these two transactions. The local expert consultancy was advised by Rudolf Hommes, former Colombian Finance Minister.

We cannot ignore the fact that CEMEX recognized the Colombian market, due to previous commercial approaches with Colombian suppliers, after a rigorous economic analysis, the following variables took center stage: The political climate, in general in the emerging economies of Latin America, were stable; with this fact clear, the focus was on the outlook for GDP growth (Exhibit 5), the inflation behavior. (Exhibit 6).

### **Cement industry in Colombia**

The beginnings of the cement industry in Colombia date back to 1905, when the company of sons of Miguel Samper was established, which began operations with a cement plant in 1909. By 1930, the potential of the market made the first competitors emerge for the Samper Family, represented in this case by the company Cementos Diamante, located near the capital of Colombia.

Los inicios de la industria de cemento en Colombia se remontan a 1905, cuando se constituyó la sociedad de hijos de Miguel Samper, que inició operaciones con una planta de cemento en 1909. Para 1930, el potencial del mercado hace que surjan los primeros competidores para la Familia Samper, representada en este caso por la compañía Cementos Diamante, ubicada cerca de la capital de Colombia. In 1936 the cement plant of Cementos Argos in Medellín came into operation and in 1941 the Cementos del Valle operation began.



The growth of the industry benefited from the expansion of territories in the middle Magdalena, located in the central part of Colombia, thanks to this, the Cementos Diamante Bucaramanga plant began operation and continued with Cementos Nare and Cementos del Caribe in 1943.

In 1950, operation Cementos Hércules began in Santander and Cementos Cairo in Antioquia; by 1959, Cementos Diamante del Tolima S.A. came into operation during this decade the national cement industry was consolidated in different regions of the country.

In the period between 1960 and 1990, cement plants appeared as: Cementos Caldas in 1960, Cementos Boyacá 1961, Cementos del Norte 1964, Tolcemento 1969, Colclinker in 1977, Cementos Paz del Río 1981, Cementos Rioclaro 1986 and a new Samper cement plant in La Calera in 1982. It is important to note that the emergence of new players in the domestic industry led to movements in terms of mergers and acquisitions in response to the high competitiveness of the market (exhibit 4).

That is how in 1941 Cementos Argos acquired the third part of Cementos del Valle. Already in 1951, Cementos del Caribe buys two thirds of Cementos del Nare and Cementos de Valle acquires a third of Cementos el Cairo-. HOLCIM bets on Colombia in 1955 by acquiring the Cementos Boyacá plant; and in this way begins the entry of foreign investors to the country for this market.

In 1960 Cementos Samper focused its attention on the market in the north of the country and formed with local partners a new company in Santander called Cementos Hércules. In 1963 a new partnership between Hercules and Samper begins operations in Norte de Santander (EXHIBIT 4)

Taking into account this scenario, in 1995 CEMEX identified new opportunities for incursion into the Colombian market, given the dynamics and capacity for expansion of the cement industry, export channels and the projection of construction in Colombia. (EXHIBIT 3)

In Colombia, the behavior of construction activity was closely related to cement performance and production. It generated an economy-of-scale model for cement producers, but the risk was the sensitivity of commodity prices.

However, the country presented a competitive scenario conducive to growth, due to the infrastructure works that were being developed, which caught the attention of Lorenzo Zambrano. Zambrano needed to choose how to participate strategically in the markets in which it was rooted and ensuring the purpose of internationalization towards promising markets.

Since 1990 the cement sector in Colombia had sustained growth (exhibit 8), the industry was an oligopoly, and high sources of initial investment were required for its entry, but it offered CEMEX

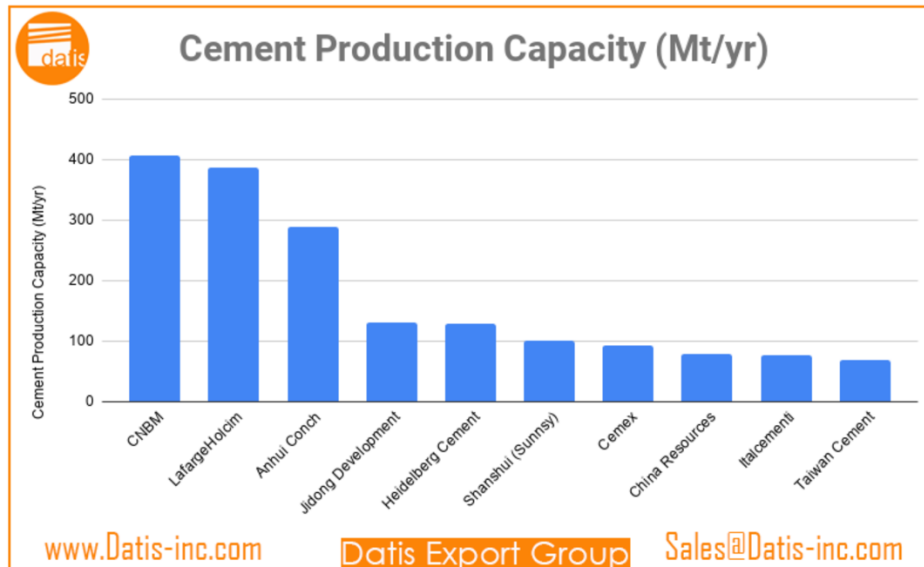


the opportunity to scale the business and extend the distribution network, taking into account and on the basis of the aggregate behavior of the economies of the Latin American region, the management team defined which was the economy that would generate the highest returns (exhibit 7) but also faced other challenges such as: the adaptation of the business to operate, the negotiation process towards a possible acquisition, merger or the opening of a new operation; taking into account the minimization of financial risk and the optimization of capital expenditures. (Exhibit 3)

Taking into account CEMEX's strategy, do you think it is the right decision for Cemex to enter the Colombian market?, what actions would you take, as a member of the management team, to venture?, Do you identify the advantages and disadvantages of the different options that you have considered? Given the level of uncertainty, do you think the Colombian cement market would be a source of value for Cemex?

**EXHIBIT 1**

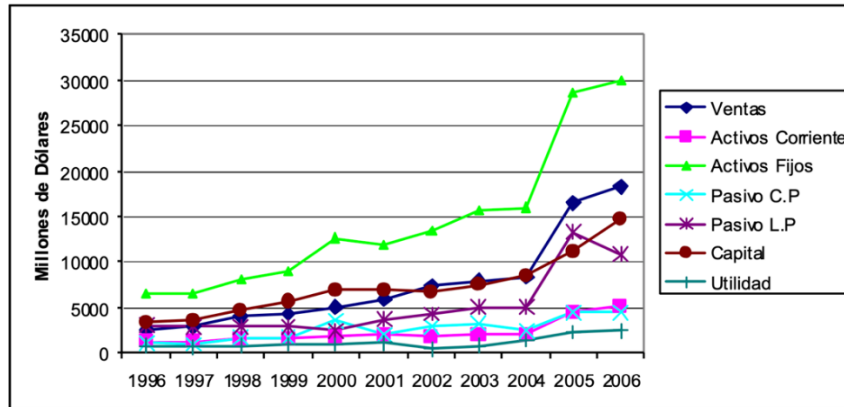
*Production capacity of companies in the cement industry 2020<sup>2</sup>*



**EXHIBIT 2**

*Trend of CEMEX's main figures globally*

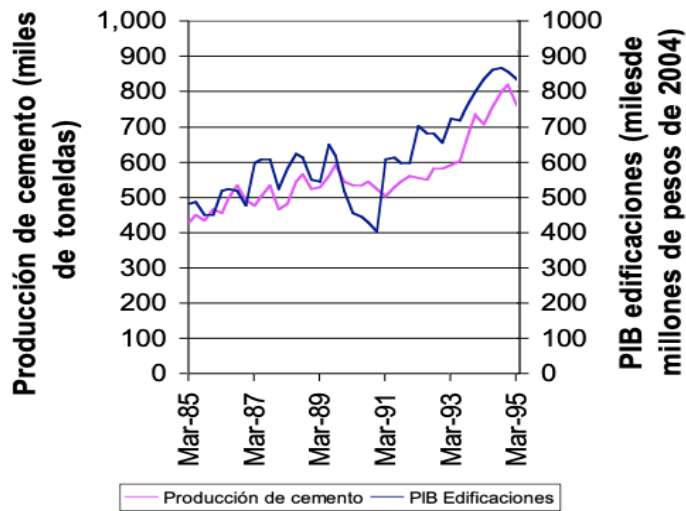
<sup>2</sup> Taken from: <https://datis-inc.com/blog/what-is-the-largest-cement-producer-in-the-world/>, 13/05/2021



Fuente: Cemex

**EXHIBIT 3**

*Dynamics of cement production in Colombia.*



**EXHIBIT 4**



**Plantas de Produccion Por Grupo empresarial 1996**

Plantas de Cemento	Grupo
Cementos Argos	Argos
Cementos del Caribe	
Cementos del Valle	
Cementos Caldas S.A.	
Cementos Rio Claro S.A	
Colclinker S.A	
Tolcemento S.A.	
Cemento del Cairo S.A	
Cementos del Nare	
Industrias e Inversiones Samper S.A	Samper
Cementos Hércules S.A	
Cementos Diamante	Diamante
Cementos Diamante Bucaramanga	
Cementos Diamante del Tolima	
Cementos del Norte S.A	
Cementos Diamante Ibagué	
Cementos Boyacá	HOLCIM
Cemento Aserias Paz del Rio S.A	

Fuente:Argos, CEMEX, Holcim

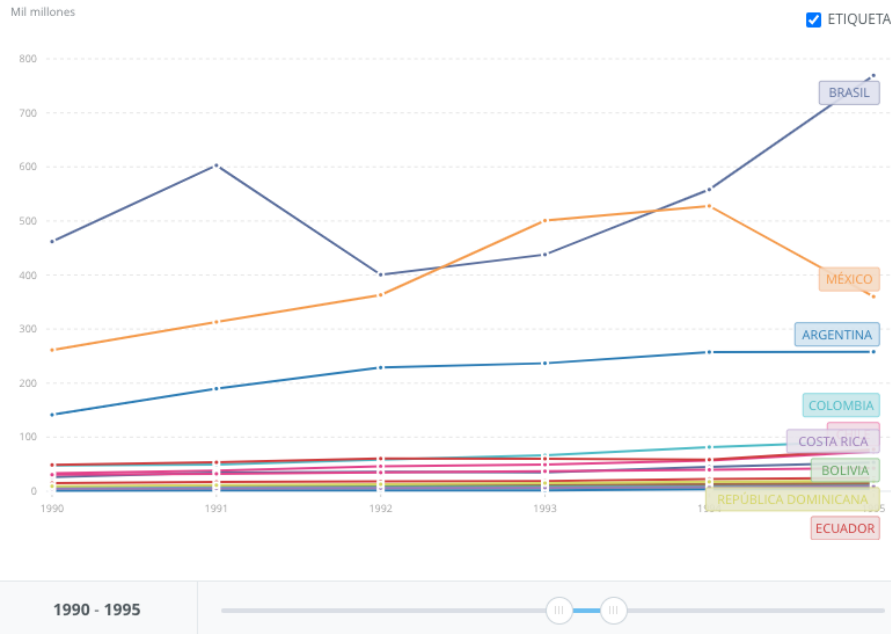
*Companies market share 1992 – 1995*

Compañía	1992	1993	1994	1995
Argos	49.16%	48.84%	48.47%	42.82%
Diamante	14.57%	16.20%	21.26%	25.64%
Samper	12.97%	13.68%	13.16%	12.32%
Boyacá	13.07%	12.10%	10.90%	11.26%
Paz del Río	9.59%	8.56%	5.58%	7.40%
Hércules	0.65%	0.62%	0.63%	0.56%

Fuente: Instituto Colombia de Productores de Cemento (ICPC)

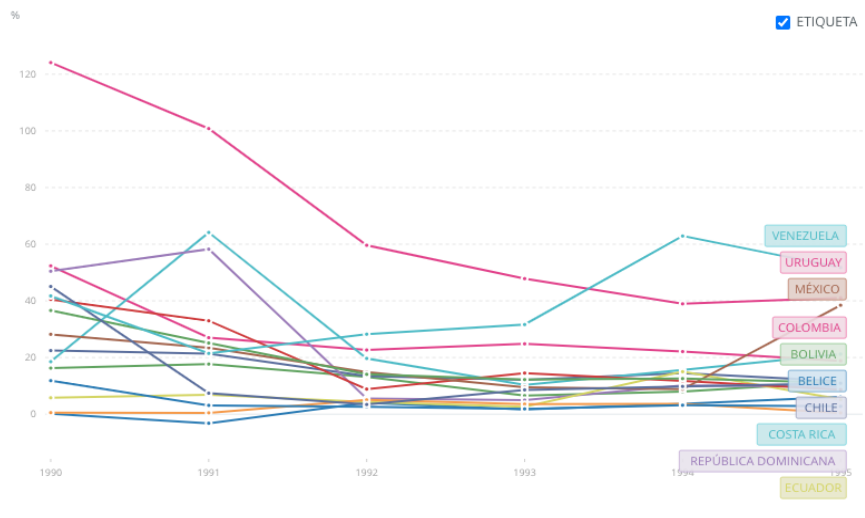
**EXHIBIT 5**

*Behavior of the aggregate economy in Latin American countries.*  
*Gross Domestic Product USD\$*



**EXHIBIT 6**

*Inflation between 1990 and 1995 World Bank countries such as Brazil, Argentina are not graphed because they had a very volatile behavior*



**EXHIBIT 7**

*CEMEX Global Strategy*



**EXHIBIT 8**

*Cement production in Colombia from 1980 to 1995*

