

Cemex is a global construction solution marketing essay



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CEMEX is a global construction-solution organization that provides product a consistently high quality and reliable service to customer. CEMEX is advance in the well-being of how they serve via their relentless focus on continuous improvement and the effort of promoting sustainable future.

The organization was founded in 1906 at Mexico, and now they have become the world's largest building material organization. It operates in more than 50 countries and has 60, 000 employees worldwide. CEMEX takeover RMC in 2005 where their operation starts from extracting raw materials to produce cement, distribute and markets cement to customer over 50 countries which they also uphold business relationships with more than 100 nations.

Using vertical integration strategy, assess the impact of the approach adopted by CEMEX's business operations towards its growth.

Vertical integration

“ Vertical integration is the extent to which an organization owns the network of which it is a part. At a strategic level it involves an organization assessing the wisdom of acquiring suppliers and customer.” (Slack N et al, 2002) It is where an organization decides whether to make a particular component or to perform a particular service itself, or alternatively buy it in from a supplier based on the individual product or services it means to the operation. Moreover, “ it can have a significant impact on a business unit's position in its industry with respect to cost, differentiation, and other strategic issues, the vertical scope of the firm is an important consideration in corporate strategy”. (Anonymous, 2010)

To be the most preferred and efficient building material company worldwide, CEMEX must ensure they have a good financial performance for the business. Thus, they started to pursue its aggressive growth strategy through vertical integration strategy, which can be defined in terms of:

Direction of Vertical Integration

CEMEX adopted both forward and backward integration. For example, in the tertiary sector where CEMEX apply the forward integration that expand on the demand side by distributing its raw material and finished goods to customers for construction of buildings, bridges and transport links; where they put their customer first.

“ Their Construrama distributor network has grown into the largest construction materials chain in Latin America, where it offers their customer uniform product quality, reliable client service, and convenience”. (Charles nd) Hence, providing services to business and consumers will “ brings the organization closer to its markets and allows more freedom for it to make contact directly with its customers”. (Slack N et al, 2002)

CEMEX’s backward integration can be seen in the primary activity which involves extracting raw materials from land and sea. Where it expands its strategy on the supply side of the network that “ allowing the organization to take control of its suppliers, often to gain cost advantage and prevent competitors gaining control of important suppliers” (Slack N et al, 2002)

Extent of Vertical Integration

Not all organization chooses to integrate far away from their original part of network. However based on the case study, some large organization like CEMEX is very vertically integrated. For example, CEMEX is involved with extraction, processing and use of raw material from the earth as well as manufacture finished goods and construction activities. It also operates to distribute and its goods and provide service to business and consumers, e. g. retail, finance and transport. This has made their path fully operate from raw material until the end network of process, which is all owned by CEMEX.

Balance among Stages

CEMEX have a total balanced network relationship, which one stage produce for the next stage in the network is totally satisfied the requirements. It has full balanced networks which include the virtue of simplicity and it allows every stage to concentrate on the requirement for the next stage. For instance, extracting process of raw material has to fit in with the government's Regional Minerals Plan, where quantity needed is specified to ensure a fair balance across the country. Additionally, " dredged aggregates are vital for the future development and will help to replenish Britain's beaches and protect the coastline from erosion." (Anonymous, 2009)

Perceived Advantages of Vertical Integration

Diagram 1: Advantages perceived by CEMEX (Self-made, 2010)

Secure Dependable Delivery

Fundamental reason for CEMEX to acquired RMC through backwards integration, because " RMC'S strong position in cement, aggregates and

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ready-mixed concrete will add to CEMEX existing operation in these areas and, combined with their global presence in cement products, enhance their leading position in the global building-materials market". (Markley, 2004) Moreover, it helps CEMEX to create opportunities in new markets for cement product; which it also provides additional geographic revenue diversity and strengthen market position in developed markets.

Engaging a process in-house is better than outsource, because it helps secure dependable delivery of input materials. For example, CEMEX engaged in extracting raw material, is to ensure to have long-term supply rather than having an insufficient supply market which cannot satisfy the organization.

Reduce Cost

The acquiring of RMC by CEMEX, help the organization to reduce cost via less cost is needed to purchase raw material from supplier because they can extract the raw material by themselves. For example, if CEMEX did not takeover RMC and RMC increase the price according to the market price, thus CEMEX have to pay more for the raw material they want. When CEMEX takeover RMC, it can control the pricing for the material, so the bargaining for the supplier is low and allowing CEMEX to have more capital to place on their Research and Development.

Improve Product and Service Quality

Moreover, it helps them to secure their specialist and technological advantage to prevent the competitors getting the knowledge of product and service. Moreover, they have full authority over the quality control in the production process of making cement which will keep their product quality to

be consistent. Thus, it helps the organization to provide better product and service to buyers which will lead to increase of market share.

Disadvantages of Vertical Integration

Diagram 2: Disadvantages faced by CEMEX (Self-made, 2010)

Loss of Volume Flexibility

Heavily integrated organization like CEMEX extract raw material themselves to make cements, means that it has a high proportion of their cost are fixed cost. When CEMEX heavily invested to have a in-house operation which they can do everything themselves, CEMEX will loss of volume flexibility. This means, when they have a high level of fixed cost, any reduction in produce of product or activity can easily cause the organization operation's economics either close to or below the break-even point. Thus, if CEMEX cannot maintain the volume produce it will affect the profitability and maintenance cost of the operation.

Distract from Core Business

CEMEX will be distracted from their core business which is provide cement, ready-mix product and aggregates to consumer. However, after they acquired RMC they tend to focus more on extracting the raw materials such as gravel and sand. Hence, it has a tendency that will lead them to distract from concentrating of provide cement more towards the extracting process. Additionally, when they are distracted from core business it will also affect profitability of the organization's sales revenue.

Lack of Innovation

CEMEX has vertically integrated, means they have invested in the processes and technologies that is needed to produce its product. Hence, this might lead CEMEX's industry to a tendency to lag of adoption of new technologies from competitors. However, " there is a considerable body of evidence to suggest that customers and suppliers are a major source of innovation".

(Slack et al, 2010) Therefore, when CEMEX acquired their supplier it prevents them to have new information on new innovation of technology.

Critically assess CEMEX's location decision, which provide a balance between its competitiveness in building materials industry against its commitment towards environmental, legal and social concerns.

To run a successful, competitive organization that collaborates with issues like environmental, legal and social concern to make a positive impact to the world. Organization like CEMEX UK should have taken these issues seriously because it will affect the organizations direction towards what they are trying to achieve. These factors will be further discussed below.

For example, in the primary activities where CEMEX chooses to extract raw materials from land and sea; its plans must have a proper way to extract, restore and after-care of sites. While, the extracting of sand and gravel form sea bed by dredging; dredged aggregates are vital for the future development. Hence, CEMEX UK helps to replenish Britain's beaches and protect the coastline from erosion.

Environmental

CEMEX as a building material industry not only satisfied the essential needs of shelter and infrastructure, CEMEX also designed its global environmental strategy where it enables them to manage their impacts biodiversity around the sites; it helps the organization to be more competitive among the competitors.

Due to these environmental factors, CEMEX needs to choose a location which is near to the raw material and ensure that it will not be near the urban area where it will affect the environment of the city. Thus, the majority of its ready-mixed concrete plants are located near quarries to ensure fast supply to save time and cost. CEMEX is committed to use the rail to transport their material in order to lessen the emissions compared to the journey by road.

Despite global recessionary conditions, CEMEX also has made a concerted effort to maintain their environmental investment and they are aware of the choice of location which has an impact on the local environment. This can be seen in the table 1 below:

Sustainable approach adopted by CEMEX

Effect from action

Committed to use rail to transport aggregates compared to road

Produce 5 times lesser of carbon emissions

Uses water transport via sea, rivers, conveyors & underground pipelines.

Help minimize carbon footprint

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Committed to the use of alternative fuels such as chipped tyres and treated household waste to heat the kilns.

Helps to reduce emissions of CO₂.

Table 1: Sustainable approach to environmental issues by CEMEX (Self-made, 2010)

Hence, by adopting and having responsible on the impacts that will affect the local environment, in 2009 "the number of major environmental incidents dropped by 68%". (CEMEX, 2009) therefore, this makes CEMEX to be more competitive in business as it has commitment towards the environment.

Legal

Legal factor is related to the legal environment in which an organization operates in a country. Different country has their own legal concern factors, thus it will affect CEMEX's location decision to operate their business in a particular country. For instance, UK government regulates the marine dredging to minimize the impact on environment. Thus, CEMEX have a choice of not operate in UK but, CEMEX choose operates in UK, so they have help replenish Britain's beaches and protect the coastline from erosion in order to comply with the rule of UK government.

Moreover, CEMEX UK locates its plants near to where the raw materials are, as CEMEX located its national supply network more than 500 location.

CEMEX aim to locate quarrying and manufacturing facilities in most appropriate location not only to meet the market needs. It also complied with the UK Government's objective to lessen the trucks used on road wherever

possible to reduce the carbon emission. Hence, CEMEX UK committed this by using sea, rivers, conveyers and underground pipelines to transport their products.

Social

Social concern for the community is taken seriously by CEMEX. Whatever operation site CEMEX does will affect the community around them. A cement company like CEMEX it should locate its industry which is less population, so it can minimize the impact of environmental pollution which will directly affect human's health. Hence, CEMEX have to consider every factor that will affect the health's of the community before it locates its plants.

For example, CEMEX should locates its plants close to it raw material as well as ensure the place it less in population; so the people around the city will not be affected by the noise pollution and air pollution caused by the industry. Moreover, CEMEX also committed to use of alternative fuels from chipped tyres. This will benefit CEMEX by having a low cost energy efficient fuel and reduce emission; as well as benefiting the community by less waste that will goes to landfill, provide a safe way of disposing household waste and save fossil fuels for future generation.

Compare and contrast the effectiveness of CEMEX's sustainable way of operating its business against an electronic product manufacturing industry of your choice.

Samsung Vs CEMEX Vertical Integration

Samsung is an electronic organization which creates innovative products and cutting-edge technologies for people to experience it worldwide. Samsung

has vertically integrated its operation that includes components and finished product. “ Eight years after beginning operation in Mexico, the Samsung Group inaugurated Samsung Tijuana Park, a vertically integrated production site that represents total investments for US\$ 200 million”. (Anonymous, 1996) Thus, Samsung has adopted a backwards vertical integration which makes them different from CEMEX as CEMEX adopted both forward and backward integration. The comparison of Samsung’s and CEMEX’s vertical integration can be seen in Table below:

Integration Strategy

Samsung

CEMEX

Direction of Vertical Integration

Only adopted backwards integration

Adopted both forward and backward integration

Extent of Vertical Integration

Produce its own component and finished products of electronic goods

Extract its own raw material for cement making process as well as ready-mix cement product.

Hence, the similarity of both organizations is that they deliberately choose to integrate backwards to the extent of involving themselves in the processing, producing and manufacturing their own product.

Balance among Stages

They do not have a balance of integrated strategy, because they focus more on backwards integration.

They have a balance of integrated strategy of backward and forward integration

Table 1: Compare and Contrast the Effectiveness of Samsung and CEMEX.
(Self-made, 2010)

Both Samsung and CEMEX have different sustainable way to operate its business. As Samsung is an electronic product manufacture industry, whereas CEMEX is cement product manufacture industry. Thus, they approach business in a different way but both also try to comply with few issues below to minimize the negative impact toward both organization and the world.

Environmental

Samsung and CEMEX ensure that during their manufacturing process it will minimize the impacts towards environment. Table 1 below will illustrate how both companies has approached and complied with the environmental issues.

Samsung

Effect

CEMEX

Effect

Global Green Management System

Complied with safety regulation

Control internal maintenance standards

Committed to use rail to transport aggregates compare to road

Produce 5 times lesser of carbon emissions

Product Stewardship throughout the lifecycle

Ensure product are safe and less burden to environment

E. g.: usage and disposal of product

Uses water transport via sea, rivers, conveyors & underground pipelines.

Help minimize carbon footprint

Clean and Green Process - utilize optimal eco-friendly production technologies

Helps minimize the use of energy and natural recourses

Reduce greenhouse gas emission

Committed to the use of alternative fuels such as chipped tyres and treated household waste to heat the kilns.

Helps to reduce emissions of CO2.

Table 1: (Self-made, 2010)

Information Source: <http://www.samsung.com/us/aboutsamsung/sustainability/environment/environment.html>

Legal

Different country has their own legal concern factors, thus it will affect an organization's location decision to operate their business in a particular country. However, Samsung and CEMEX both comply with the rules that is needed to follow in a different way in order to kept businesses to be sustainable enough to compete with competitors. The table 1 below shows how both organizations comply with the rules in a different way.

Samsung

CEMEX

Compete fairly, abiding by fair-trade law according to international standards and national laws.

CEMEX in UK helps to replenish Britain's beaches and protect the coastline from erosion to comply with the UK government rules.

Organization will not permit the acceptance of money, goods, entertainment or share offers from external parties concerned to violate fair trade.

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Complied with UK Government's objective to lessen the trucks used on road to reduce carbon emission

Table 1: different way of how Samsung and CEMEX complied to legal issues.

Information Source: <http://www.samsungsmd.com/CyberAudit/eng/conduct02.html>

Social

Most organization will seriously have concern on social to bring maximum benefit to the community. Hence, CEMEX have adopted various ways such as lowering the produce of harmful to minimize the impact towards human's health by the use of sea transport rather than truck that will produce CO₂. CEMEX also benefit the community by lessens the wastes to landfill, which provide a safe way of disposing household waste.

Diagram 3: Social issues concern by Samsung

Source: <http://www.samsung.com/us/aboutsamsung/sustainability/socialcontribution/socialcontribution.html>

In contrast, based on diagram above Samsung 3 priority is to support the young students by helping them to have hoped for education such as motive them to join essay contest on the subject of digital technology's impact. Samsung also help children from low-income families by giving " Youth Education program Sponsorship" and funding to help young generation in countries like Kenya, Egypt and Republic of South Africa. Moreover, they

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promote healthy families such as having Anti-obesity program in partnership with European Olympic committees.

Conclusion

As a conclusion, CEMEX is a vertically integrated in both forward and backward integration. Thus, being vertically integrated sometimes might bring an advantage but also disadvantage towards the organization; which based on how they approaches it. Moreover, to be sustainable enough in such competitive business world, organization should not only being vertically integrated they should also take a serious concern on environmental issues, legal and social issues before locating the industry. This can be seen in Samsung and CEMEX where they have the concern for issues that will affect the organization and community. Hence, if these issues are taken seriously it will have a win-win situation for both organization and the community. References

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