Foreign direct investment by cemex

Which theoretical explanation, or explanations, of FDI best explains Cemex's FDI?

Cemex's foreign direct investment strategies and decisions were really molded by the nature of their industry/product. FDI yielded the most profitable and controllable option which they felt would stimulate the fast growth of the company. When looking at the theories of FDI, it is easy to see why Cemex preferred a direct investment instead of the other options of penetrating these markets.

Exporting was eliminated as an option right-off-the-bat due to their product, cement; specifically ready-mixed cement that can only last about an hour and a half before solidifying. This alone abolished the exporting option for FDI because there would be no possible way of getting the product to the consumer before it became useless. This made direct investment much more attractive for expansion. The other option besides direct investment is a licensing strategy. This would allow manufacturers in the target foreign countries to produce and sell the firm's product for a royalty on each unit solid.

This would seem more attractive right away because it removes the risk of a very expensive initial investment in manufacturing facilities and other infrastructure, but just like any business theory, it has its weaknesses. Licensing agreements can lead to a company giving away its manufacturing and technological expertise to foreign competitors like we saw with RCA in Japan. The result was competitors like Mitsubishi and Sony basically mimicking the efforts of RCA and eventually bringing their products to the

United States and became a direct competitor which made RCA obsolete in market share.

This would be extremely detrimental to Cemex’s global dominance and market share. Another downside to licensing is that it does not give the firm control over operations such as manufacturing, marketing, and strategy which are parts that Cemex prides themselves on and without their marketing strategy and technologically advanced manufacturing and distribution systems; they would be basically “ leaving money on the table” everyday. The textbook gives a good reason for this, “ the rational for wanting control over the strategy of a foreign entity is that a firm might want its foreign subsidiary to price and market very aggressively as a way of keeping a foreign competitor in check.”

The final issue with licensing is that Cemex’s success and competitive advantage is based on their superior management, marketing, and manufacturing capabilities more than the product itself. Meaning that even though a licensee could physically produce Cemex’s product, they most likely wouldn’t be able to do it as efficiently as well as not be able to market it as well as Cemex could themselves. All of these factors made direct investment the most attractive option which lead to the quick expansion into foreign nations through way of obtaining established manufacturers and building their own infrastructure.

What is the value that Cemex brings to the host economy? Can you see any potential drawbacks of inward investment by Cemex in an economy?

Cemex brings multiple valuable dimensions to a host economy like they displayed in their home country, Mexico. Sure they dominated the industry in the country and obtained 60% market share which makes it very difficult for other firms to compete, but that doesn't mean there are benefits for other people through their success. In Mexico alone the company is very accommodating to its distributors which total around 5, 000. They are accommodating in the way they conduct business with them; Cemex established a rewards system in which the distributors can earn points for hitting sales targets which then can be converted to stock shares of Cemex.

This gives low-income job holders the access to investments and a type of income that they would most likely not obtain if not for this program. They are also very focused on constant expansion of business and stimulating sales by giving high volume distributors the option of purchasing their equipment through Cemex at a very significant discount, which ultimately leads to more profit for the distributor. Another benefit they would bring to the host country is more obvious, tax revenues; Cemex does $15 billion in annual sales in over 50 countries. In developing countries those tax revenues could make a very large difference in the rate of their advancement.

The drawback that could come from Cemex in a given economy is something that is feared in many industries, especially in developing nations; monopolization. Due to the dominance and efficiency that Cemex demonstrates in manufacturing and marketing, it would be virtually impossible for a smaller firm in these developing nations to compete, leading to an extreme dominance in market share (though this is known to attract other firms to the market, stimulating competition and overall economic benefits). This is something that is always feared when a large company in a specific industry cracks into an untapped market so I do not believe that this drawback outweighs the great benefits it could bring to these countries.