

Homework case analysis week 3

Business



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Homework/Case Analysis Homework/Case Analysis Summary The case end “ Foreign Direct Investment by Cemex” proffered pertinent issues relative to the successful global expansion undertaken by Cemex in its pursuit for growth, financial returns and leadership on a global scale. Initially starting as the largest cement manufacturer in Mexico, through focusing on efficient manufacturing, excellent customer service and the development of state of the art logistics system that addresses unpredictable demand through “ a system of seamless information technology, including truck-mounted global positioning systems, radio transmitters, satellites, and computer hardware, that allows it to control the production and distribution of cement like no other company can” (Hill, 2012, p. 251), Cemex was regarded the third-largest cement manufacturing organization in the world. Currently, Cemex continues to eye other international markets, focusing on China and India where global rivals were reported to be expanding and where they have not yet established any manufacturing presence.

2. Questions

a. Which theoretical explanation, or explanations, of FDI best explains Cemex’s FDI? The theoretical explanations that best explain Cemex’s FDI was considering the volatility in demand in its domestic market, the increasing demand in developing nations for cement, and opportunities for transferring knowledge, skills and technology to these markets provided the impetus for Cemex’s FDI. The nature of their product (cement), expanding operations in other nations would consider transporting the product (which could be very costly because of its weight and the fact that it must be used

within a prescribed time period). Therefore, Cemex opted to undertake FDI using acquisitions of established cement makers primarily classified as horizontal FDI. By doing so, Cemex could effectively apply its competitive advantage through transferring skills and logistics as effectively practiced in the domestic market.

b. What is the value that Cemex brings to the host economy? The value that Cemex brings to the host economy are positive economic benefits in terms of “acquiring inefficient cement companies in other markets and transferring its skills in customer service, marketing, information technology, and production management to those units” (Hill, 2012, p. 251). As such, the new skills, strategies, technology and processes transferred to the host economy pose greater value in knowledge and applications that could be transformed to increased productivity and financial returns.

Can you see any potential drawbacks of inward investment by Cemex in an economy? A potential drawback of inward investment was actually manifested in its 2004 purchase of RMC for \$5.8 billion. With the staggering amount of investment, Cemex was required to closely evaluate the reasons why this plant was performing below capacity (only 70%) and therefore, it required them to bring in “an international team of specialists to fix the problem and quickly increased production to 90 percent of capacity” (Hill, 2012, p. 252).

c. Cemex has a strong preference for acquisitions over greenfield ventures as an entry mode. Why? Greenfield ventures limit the percentage of ownership defined according to the countries' foreign investment regulations (10% or more) and this option takes longer to implement and usually entails greater risks since no established market would provide a historical feedback

on the potential performance of the investment (Hill, 2012).

d. Why is majority control so important to Cemex? Majority control is so important to Cemex because it defines the extent of governance and authority that the organization could apply in terms of deciding on current and future strategies for the organization ((Dynamics of Industrial Location: Direct Foreign Investment, n. d.)

3. References

Foreign Direct Investment by Cemex. (2012). In C. Hill, Global Business Today. McGraw Hill

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Dynamics of Industrial Location: Direct Foreign Investment. (n. d.). Retrieved May 19, 2012, from <http://www.sfu.ca/~hayter/fdi.htm>