

C-SUITE LEADERSHIP

INTO THE CEMEX WOMB

Mexican cement giant CEMEX has developed a unique set of procedures to integrate its acquisitions and share their best practices globally



In 1985, when Lorenzo Zambrano took over the helm of CEMEX, the company was a smallish player, with only five cement plants and 6,500 employees. But Zambrano was proud of his grandfather's 1906 brainchild, and had large ambitions for the company. And since he was only 41 at the time, he had the future in front of him.

Zambrano quickly understood that the path to growth was paved with one type of brick:

acquisitions. The thinking here was not just to promote CEMEX's growth, but also to avoid becoming the target of a takeover. And so Zambrano set about his first acquisitions, and stayed close to home when in 1989 his company acquired Tolteca, the second largest cement producer in Mexico.

The first acquisition is always a steep learning curve, and the case of Tolteca was no different. One of the big integration headaches was in the systems

area, where CEMEX's IBM platform was not very compatible with Tolteca's HP machines.

The first acquisitions

With Mexico's economy opening up in the early 1990s – NAFTA treaty imperatives – CEMEX started looking abroad for partners... or targets. It found them in Spain, in the form of Valenciana and Sanson, the country's two largest cement producers. With 20/20 hindsight, Zambrano seems

nostalgic at the wild young days of CEMEX's international forays: "It was really almost reckless to do what we did, but we did not know any better. The risks did not appear to be so bad. So we jumped into the pool and learned to swim. Perhaps being able to take risks is a good quality when you are expanding a company."

And expand, Zambrano certainly did: from the 1985 \$275 million medium-sized business, he transformed CEMEX into one of the top five actors in the

cement-aggregates-readymix sectors (see footnote). CEMEX boasted revenues of "\$21.7 billion in 2007, and net profits of "\$2.6 billion. The secrets of his success: good post-merger integration and wily seeking of best practices within companies he acquired. (See timeline chart).

From the very beginning – his Mexican acquisition of Tolteca in 1985 – Zambrano and his team understood the importance of information technology (IT) in stitching together the old and the new. One of the key objectives for CEMEX was to understand the operations throughout the company, and IT was the microscope that allowed top management to keep abreast of far-flung operations. This became all the more important as CEMEX acquired its way into ready-mix concrete and took on more and more cement production plants and aggregate quarries.

First PMI steps

With the Spanish acquisitions in 1992, CEMEX learned fast. The first focus of the acquisitions was to integrate the two Spanish companies into the CEMEX fold.

CEMEX key data

Founded: 1906
Headquarters: Monterrey, Mexico
Revenues 2007: \$21.7 billion
Net profit 2007: \$2.6 billion
Employees: 67,000
Countries of operation: over 50
Aggregate quarries: 400
Cement plants: 66
Readymix plants: 2000

When the Mexican managers arrived in Spain, they discovered varying degrees of difficulty. In the eighteen months that the integration required, CEMEX managers had a feeling of 'déjà vu': just as for the Tolteca deal, IT was the first stumbling block that needed to be addressed.

CEMEX had had the vision to start a major IT investment project, which took place from 1987 to 1990, under the impetus of Zambrano, who valued information-oriented companies: "Information is your ally: you use it to detect problems more quickly and get better faster."

Phase 2 – ARIS

As the stream of acquisitions continued, Zambrano and his managers realised that there was the need for more than

Many acquisitions over the years			
Year	Country	Company	Value
1994	Venezuela	Vencemos	n.a.
1994	Panama	Cemento Bayano	n.a.
1994	USA	Small plants	n.a.
1996	Dominican Republic	Cementos Nacionales	n.a.
1996	Colombia	Samper	\$300 million
1998	Philippines	APO Cement & Rizal	n.a.
1998	Indonesia	PT Seman Gresik	n.a.
2000	USA	Southdown	n.a.
2001	Thailand	Saraburi Cement Co.	n.a.
2001	Puerto Rico	Puerto Rico Cement Company	n.a.
2004	U.K.	RMC	\$ 5.8 billion
2007	Australia	Rinker	\$ 14.2 billion

just IT integration. Although IT provided the backbone for the control systems across the company, it did not cover the various business processes that could also benefit from post-merger thinking and integration. What are these so-called business processes? "They include everything from the commercial processes used to sell ready-mix, to human resource policies," explains professor Donald Marchand, of IMD business school in Switzerland. "Every single function that a CEMEX company handles is put to the test and checked for possible integration aspects."

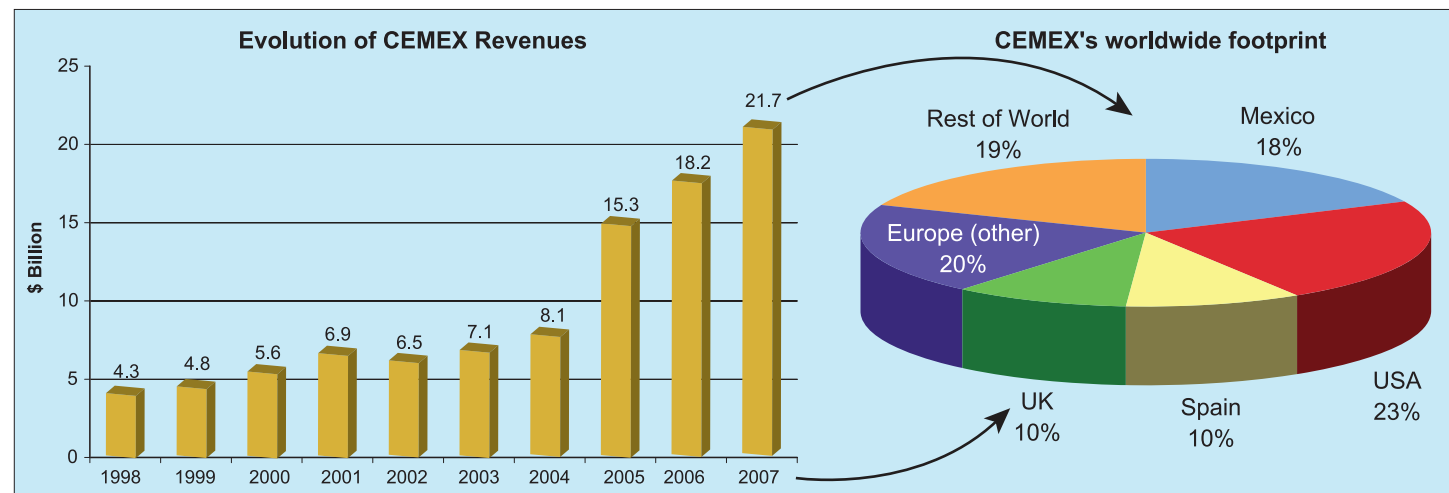
To facilitate the post-merger integrations, CEMEX established its first Business Process Centre in the mid-1990s. This centre used an analysis (or mapping) technique called ARIS (short for Architecture of Integrated Information Systems). ARIS was key in setting homogenous standards for the

myriad technical tasks that the worldwide managers had to perform – namely in the key back office areas of accounting, finance, audit, and IT. (See chart 'How CEMEX handles PMI')

One of the crucial first steps in the PMI process is the gap analysis, where CEMEX managers analyse a specific business process to see how different CEMEX and the acquired company differ in their handling of the task. Large gaps will probably lead to more extensive PMI efforts, but probably also to larger cost savings and revenue gains.

For the non-technical aspects of the integration, CEMEX used more individualised training workshops. One of the main purposes of these workshops was to insure that the entrepreneurial spirit was not lost, as managers from acquired companies joined a sometimes-far-larger CEMEX entity. Another purpose was to instil an overall company culture

CEMEX is active in three different branches. Aggregates refer to the rough stones that are quarried from the Earth and given basic treatment (mostly crushing to specific sizes). Cement is the powdery substance used in building projects. It is typically sold in 20-kilo bags and Portland Cement is the most common type. When mixed with water (and other materials such as sand) cement makes concrete. Ready-mix is also known as concrete. It is pourable and is usually produced in local plants and transported by rotating concrete trucks to the customer (construction site). Ready-mix in a truck has a short shelf-life (usually 2 hours).



– largely results-oriented – that came to be known as the ‘CEMEX Way’.

One step beyond – The CEMEX Way

Zambrano has always had a preoccupation for the technical side of his businesses, perhaps a reflection on his undergraduate education as an engineer at Monterrey’s ITESM Institute of Technology. And so, quite logically, about five years after having set up ARIS and the business process centre, Zambrano felt the need to further structure CEMEX’s systems. Another factor was certainly that CEMEX’s operations were now (we are in 2000) spanning almost 3 dozen countries on 4 continents – a slightly more daunting task than he faced 15 years earlier when taking over the helm. Lastly, IT investments were now 3% of the company’s sales.

After appointing a chief information officer in January 2000, work on the ‘CEMEX Way’ started full steam. In a first phase

eight expert groups were created, one for each area where strong post-merger integration benefits could be reaped. In addition to IT, the lucky eight areas included accounting, planning, finance, procurement, HR, operations, commercial and ready-mix concrete.

What role did these e-groups fulfill? Their mission was to uncover the best practices hidden in the nooks and crannies of the now-sprawling company – namely in the newly merged bits – in order to spread these good ideas and either save on costs or boost revenues. To do so, each e-group worked closely with the local operating units (e.g. the procurement e-group would liaise closely with the Spanish or Filipino procurement managers, looking for good ideas and additional efficiencies).

As work on the ‘CEMEX way’ progressed, Mexican top management classified the various company functions into three categories: integratable, partially integratable, and un-integratable (see chart ‘Different

degrees of integration’). The first batch of tasks was migrated to CEMEX headquarters in Monterrey. The second batch were coordinated from Mexico, but with some elbow room for local managers. The third batch remained under local control in the subsidiary country.

Along with the eight e-groups, CEMEX introduced a new corporate governance chart, with a cross-over reporting structure. In this structure, four business process evolution (BPE) leaders were appointed for back office, operations, ready-mix, and commercial and logistics respectively. These four BPE leaders reported to the overall BPE coordinator. The overall post-merger integration team also interacted with an ‘evolution committee’, which helped to verify and select the best initiatives and proposals coming from line managers, both regionally and locally. This committee helped the cross-fertilisation among geographically dispersed operations.



CEMEX way hits paydirt

Conceiving PMI systems, and other adhoc methods of gleaning best practices from acquired companies is all fine and good... if there is something to show for it at the end of the day. And that is where the CEMEX Way has proven itself, thrice over.

The first proof of the pudding is in the cost savings. On the IT front, the investment in IT dropped from 3% in late 1990s to 1.8% in 2001. Part of these savings came from the drastic step of centralising all data processing operations for the Americas in one data centre in Venezuela. Other cost savings are estimated at \$150 million.

The second proof of CEMEX Way’s value is in the drastic acceleration of the post-merger integration. CEMEX’s first acquisitions, back in the late 1980s, required around 18 months to full integration of the acquired company into the CEMEX fold. A mere decade later, new acquisitions could be digested in a mere three to four

months. In turn, this had an important impact on the price CEMEX was willing to pay for acquisitions, since the company could reap rewards very quickly.

The prettiest proof of the project’s value is in the feedback loop of good ideas from acquired companies. For example, when CEMEX acquired Rinker in 2007, the managers quickly uncovered a diamond in the due diligence:

RMC was using alternative energy – from burning garbage – for its cement production in Germany. This stratagem enabled the German cement plant to earn environmental carbon credits and reduce its energy bill. After quick study and consultation, Zambrano approved Euro 55 million for the widespread roll-out of the idea to other plants around the world.

Easy vs. tough PMIs

Not all post-merger integrations have been as easy as those for single-country acquisitions. One that stands out in particular in Zambrano’s mind is that of RMC (Ready Mix Concrete) of the U.K. It was in 2004 that CEMEX set its eyes on RMC, and when the deal was completed, in Spring 2005 – after both US and EU competition officials had reviewed the deal – CEMEX’s team realised that they had bought into a challenge. RMC had operations over twenty-two countries and almost 1,500 concrete plants. Quite a chunk to chew for a PMI strategy that had dealt with country-by-country assimilations til then!

CEMEX was obliged to put together a team of 600 CEMEX and 400 RMC managers to help assimilate RMC. Like a clutch of red ants polishing off a meaty bone, this team set about its work with discipline – a word oft heard in CEMEX hallways, although with a Mexican accent.

The work was split along functional lines, with special

teams for cement operations, for materials, for logistics, for trading, for commercial (i.e. sales), for back office tasks, and other areas. The second dimension of the post-merger amalgamation was geographical: in an act more reminiscent of the conquistadores or the Mughals, CEMEX bunched together the 22 RMC countries into 3 zones: USA, Europe and Rest of World.

The PMI team leaders initially proposed to Zambrano to perform the integration over one country and 12 months. He flatly refused. The process needed to be accelerated. So the HR department rushed to hire an additional 150 outside managers (on top of the 140 internally-appointed ones), to be sent around the world to assist the PMI efforts.

Conclusions

How would the various CEMEX managers define the CEMEX way? One would probably get many different answers. Some managers might mention the discipline of the company and its various affiliates around the world. Other managers might mention the continuous need to innovate and improve. Yet others might mention the reliance on top-notch information systems. But one thing you could bet on. From Lorenzo Zambrano the reply would be: growing fast and... profitably. ■

The CEMEX way to profitable growth
By professor Donald Marchand and research associate Katarina Leger
ECCH Case IMD-3-1884

NEXT ISSUE:
XXXXXX

