

5.2: Understanding Industry Globalization

Executives often ask whether their industry is becoming more global and, if so, what strategies they should consider to take advantage of this development and stake out an enduring global competitive advantage. This may be the wrong question. Simple characterizations such as “the electronics industry is global” are not particularly useful. A better question is *how* global an industry is, or is likely, to become. Virtually all industries are global in some respects. However, only a handful of industries can be considered truly global today or are likely to become so in the future. Many more will remain hybrids, that is, global in some respects, local in others. *Industry globalization, therefore, is a matter of degree.* What counts is which elements of an industry are becoming global and how they affect strategic choice. In approaching this issue, we must focus on the drivers of industry globalization and think about how these elements shape strategic choice.

We should also make a distinction between *industry globalization*, *global competition*, and the degree to which a *company has globalized* its operations. In traditionally global industries, competition is mostly waged on a worldwide basis and the leaders have created global corporate structures. But the fact that an industry is not truly global does not prevent global competition. And a competitive global posture does not necessarily require a global reorganization of every aspect of a company’s operations. Economies of scale and scope are among the most important drivers of industry globalization; in global industries, the minimum volume required for cost efficiency is simply no longer available in a single country or region. Global competition begins when companies cross-subsidize national market-share battles in pursuit of global brand and distribution positions. A global company structure is characterized by production and distribution systems in key markets around the world that enable cross-subsidization, competitive retaliation on a global basis, and world-scale volume. (Hamel and Prahalad (1985, July-August)).

So why are some industries more global than others? And why do global industries appear to be concentrated in certain countries or regions? Most would consider the oil, auto, and pharmaceutical industries global industries, while tax preparation, many retailing sectors, and real estate are substantially domestic in nature. Others, such as furniture, lie somewhere in the middle. What accounts for the difference? The dominant location of global industries also poses interesting questions. Although the machine tool and semiconductor industries originated in the United States, Asia has emerged as the dominant player in most of their segments today. What accounts for this shift? Why is the worldwide chemical industry concentrated in Germany while the United States continues to dominate in software and entertainment? Can we predict that France and Italy will remain the global centers for fashion and design? These issues are important to strategists. They are also relevant as a matter of public policy as governments attempt to shape effective policies to attract and retain the most attractive industries, and companies must anticipate changes in global competition and locational advantage.

Minicase: Cemex's Globalization Path: First Cement, Then Services

When Lorenzo Zambrano became chairman and chief executive officer of Cemex in the 1980s, he pushed the company into foreign markets to protect it from the Latin American debt crisis. Now the giant cement company is moving into services. (Lindquist (2002, November 1); and www.cemex.com/)

Zambrano first focused on the United States. But attempts to sell cement north of the border were greeted by hostility from producers, who convinced the U.S. International Trade Commission to levy a stiff antidumping duty. Despite a General Agreement on Tariffs and Trade’s (GATT) ruling in Cemex’s favor, the company was still paying the fine a dozen years later.

Rebuffed in the world’s biggest market, Zambrano turned to Spain, investing in port facilities and outmaneuvering European rivals for control of the country’s two largest cement firms. When he discovered how inefficiently they were run, Zambrano sent a team of his Mexican managers to Spain to introduce his distinctive way of doing business. Called the “Cemex Way,” it is a culture that blends modern, flexible management practices with cutting-edge technology.

From Spain, where profits increased from 7% to 24% during Cemex’s first 2 years there, the company expanded around the globe. Blending state-of-the-art technology with the making and selling of one of the world’s most basic products, Cemex has achieved remarkable customer service in some of the most logistically challenged countries. Whether Venezuela, Mexico, or the Philippines, Cemex trucks equipped with GPS navigational systems promise deliveries within 20 minutes.

After gaining a solid international footing, Zambrano went back to the United States. In 2000, he bought Houston-based Southdown Cement—one of the largest purchases ever by a Mexican company in the United States. Soon, Cemex was the biggest U.S. cement seller. In less than two decades, Zambrano had transformed Cemex from a domestic company into the

world's third-largest cement firm by investing heavily and imaginatively not only in plants and equipment, which is what one would expect in the cement industry, but also in information technology and particularly in Cemex's people.

The corporation has consistently been more profitable than either of its two biggest competitors, France's Lafarge and Switzerland's Holcim. Sales in 2008 were almost \$22 billion, with an operating margin of almost 12%.

Today, Cemex has a presence in more than 50 countries across 5 continents. It has an annual production capacity of close to 96 million metric tons of cement, approximately 77 million cubic meters of ready-mix concrete and more than 240 million metric tons of aggregates. Its resource base includes 64 cement plants, over 2,200 ready-mix concrete facilities, and a minority participation in 15 cement plants, and it operates 493 aggregate quarries, 253 land-distribution centers, and 88 marine terminals.

Zambrano's embrace of technology is central to Cemex's efficiency. Fiber optics link the system, and satellite communications are used to connect remote outposts. Whether at the Monterrey headquarters or on the road, the chief executive officer can tap into his computer to check kiln temperatures in Bali or cement truck deliveries in Cairo.

Because he believes many companies use technology ineffectively, Zambrano spun off Cemex's technology arm to sell its services. Organized under the CxNetworks Miami subsidiary, which is devoted to creating growth by building innovative businesses around Cemex's strengths, Zambrano formed a consulting service called Neoris. With more than half of its customers coming from outside Cemex, the operation has already become hugely profitable. It has been grouped with another start-up—Arkio, a distributor of building material products to construction companies in developing nations. "We're selling logistics," says the president of CxNetworks. "We can assure our customers that they can have the materials from our warehouse to their construction site within 48 hours."

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