



## BUSINESS AS AN AGENT OF WORLD BENEFIT

Title:	<b>Cemex Homes Builds Bridges to Poor</b>
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### ***Key Ideas***

The third largest cement manufacturer in the world, CEMEX, decided it needed to move from selling materials to selling solutions. Using low fixed prices, materials on credit, pre-costed housing designs, and supervised construction services for Mexicans, CEMEX developed its "Patrimonio Hoy" program to make housing affordable and possible for 70,000 of the poor in Mexico.

### ***Innovation***

In 2002, CEMEX decided to launch an innovative experiment that would enable very poor families in Mexico to purchase building materials and upgrade their homes. The poorest people live in small houses constructed from raw cinder blocks or more flimsy materials like cardboard and corrugated sheet metal. Patrimonio Hoy - which means "Patrimony Today" and refers to the tradition of creating something of value which can be passed down to future generations - enabling poor families to finance expansion of their homes. In Cemex's own words, "We've also helped to make the dream of home ownership a reality for more than 70,000 Mexican families." What truly sets this program apart is that it is neither operated nor subsidized by the government or a non-governmental organization. Rather it is a for-profit initiative of Cemex. Cemex predicts that within five years of the program's 2002 inception, over one million Mexican families will benefit from this new way of doing business if the program continues to grow as planned. Cemex manufactures cement, the principal ingredient for construction in developing countries. Along with some of the world's most savvy multinational corporations, they are discovering that the poorest of the poor represent the next major frontier for companies struggling to maintain rapid growth. To help cope with the 1994 economic meltdown, Cemex's management team turned to Business Design Associates (BDA), a consulting firm founded by Fernando Flores - the philosopher, business consultant and former finance minister to Chilean President Salvador Allende. BDA led the first stage of social research in the low-income communities. Later, the Cemex team began developing the idea for Patrimonio Hoy by identifying the low-income do-it-yourself homebuilders as a neglected "last consumer segment." Above this segment on the ladder of individual consumers are wealthy homeowners at the top, middle-class homeowners, and then low-income consumers who are part of the formal economy by virtue of having a regular job. These low-income consumers have the option of allocating deductions from their paychecks, matched by government subsidies, to help pay for their housing. The average low-income homebuilder takes four years to complete just one room, and 13 years to finish a small four-room house that typically consists of a kitchen, bathroom, bedroom and a second bedroom that doubles as a family's common space. This discouraging rate of progress reflects the many obstacles that low-income homebuilders face. Banks and other businesses will not engage with poor residents in informal settlements where the legal status of their property ownership is murky, and residents cannot document assets, collateral, references or regular sources of income. Commercial credit historically has been unavailable to the very poor. Yet economists maintain that commercial credit is a central component of any market economy. The program initially targeted neighborhoods in which the average daily family income was about \$5 to \$15. Managers were sent into the neighborhood to enroll women—traditionally responsible for saving and purchasing within a Mexican household—in groups of three to form a "socio group." The three members of each group agree to take turns collecting small payments from each of the members that will be saved toward making cement purchases. Once the socio is formed, they are visited by a technical advisor or architect who, for a small fee, helps the members decide what will be the next room, how it will be laid out and how much material will be needed. No paperwork is required to join Patrimonio Hoy: prospective members need not provide identification, proof of address, co-signers, documentation of assets, collateral or paycheck stubs. Instead, like traditional organizations such as tandas, applicants are asked to provide the one thing they do possess: social capital - their word, honor and reputation. All they need to enroll is to promise to be consistent about making weekly savings payments. To ensure that their savings actually get spent for housing, group members receive raw materials for building - cement, iron, etc. - rather than cash. After two weeks, Cemex makes a first delivery of building materials to each member of the group. Because this occurs before sufficient savings have accumulated to fully pay the bill, Cemex is, in effect, advancing credit. But before it could successfully enter this market, Cemex needed to figure how to help do-it-yourself homebuilders overcome their resignation about not being able to improve their housing in a timely manner. Patrimonio Hoy managers began by carefully studying the methods of the Grameen Bank, the organization that invented the concept of microlending - providing tiny loans to the very poor so they can launch their own businesses and become micro-entrepreneurs. Grameen discovered that women, who comprise 94 percent of its customers, are highly reliable borrowers. Cemex has adopted strategies it learned from Grameen, such doing most of its business with women and shaping business procedures to fit traditional values such as a reliance on community solidarity. Although the average value of a sale to a low-income customer is miniscule, their numbers are enormous compared to Cemex's better-heeled customers. This makes low-income communities a more stable market that is less affected by the cyclical fluctuations of the economy. Cemex saw opportunities here: sales to the low-income market could offset its losses during economic downturns. And the low-income market offers the possibility of sustained growth that could offset erosion of Cemex's overall market share by international competitors. Cemex embarked on a strategy of learning how to tap the enormous markets of low-income customers in developing countries by studying how to do business with the poor in Mexico, where 60 percent of the population survives on less than \$5 per day. A person's social status in low-income Mexican communities is measured not so much by wealth or assets, but by "social capital" - a person's reputation and participation in the life of the community.

### ***Impact***

Since it was founded four years ago, Patrimonio Hoy has enrolled more than 20,000 families, directly affecting some 100,000 people. Even with the current pause in growth, it is adding new families at the rate of 2,000 per month, and sales are growing by 15 percent monthly. The Patrimonio Hoy program itself is not required to generate a profit. Cemex wants the program to break even so that it covers its costs. "This program has cost the company a lot of money – millions of dollars since we started four years ago," Israel Moreno, director and founder of Patrimonio Hoy, said. "This is not a charity organization. We have to meet two objectives: we have to collaborate in providing a better life for these people and the next generations of their families, and we have to do business. If we achieve both these two objectives we will be OK. But you cannot manage this as only a business or a charity organization." Patrimonio Hoy begins operating in a city by opening an office staffed by four employees in one of the outlying areas with the greatest concentration of low-income people. Patrimonio Hoy calls these areas "cells." Typically a cell has a population of 100,000, or 20,000 families. Patrimonio Hoy is operating eight cells in Guadalajara. According to the company, the program has just come through an explosive period of expansion. It grew by 250 percent last year, ballooning from 9 cells in 3 cities to 30 cells in 19 cities that are located in 15 states throughout southern and central Mexico. This rate of growth is being allowed to level off temporarily so that the program's systems and software can be upgraded and consolidated to support a large number of customers, Moreno said. Patrimonio Hoy has helped the Cemex bottom line by tripling the rate of cement consumed by its low-income, do-it-yourself homebuilders. This amount has increased from 2,300 pounds consumed once every four years, on average, to the same amount being consumed in 15 months. Already, Cemex brands are growing stronger in low-income communities, Moreno said. "Some people say, 'Thanks to Tolteca (Cemex's premium cement brand) I have my house'," Moreno said. "For 20 years I couldn't build my home, but now we have two more rooms, thanks to Tolteca.' When I hear testimonies like that, I know we are doing well and that our brand is well positioned." Moreno predicts Patrimonio Hoy will reach the break-even point by October or November 2002. "Our goal is to reach 1 million families in Mexico in five years," Moreno said.

### ***Inspiration***

Though we are proud of our track record for sustainable development, we appreciate the journey that lies ahead. While we can take some actions ourselves, we will continue to develop our stakeholder relationships so that, collectively, we can implement better and more innovative solutions to the constant challenges of sustainable development. Lorenzo H. Zambrano, Chairman of the Board and CEO, Cemex

### **Primary Sources**

World Inquiry Interview with CEMEX Mexico by bawb bawb

### **Organizations**

- [Cemex:Cemex](#)

### **Additional Resources**

- [What do you think of this innovation?](#)