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STANFORD SOCIAL INNOVATION *review*

Block by Block

How one of the world's largest companies builds loyalty among
Mexico's poor

By Ricardo Sandoval

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BLOCK by BLOCK

BY ANY MEASURE, the living room and upstairs bedrooms of Fernando Salazar Nunez's dream home about 30 miles west of Mexico City will have a world-class view once he's done building them. Visible in the distance, dead center through what will be large picture windows, is the snowcapped Nevada de Toluca, a dormant volcano rising above a wide skirt of deep-green pine forest.

In the United States, a view like this is normally reserved for the wealthy from their million-dollar homes. But in Mexico, the rich generally shun the countryside, and rural homesteads are usually simple structures of rebar and cinder blocks. True to form, Salazar's three-bedroom, 1.5-bath home comes with a modest price tag around \$40,000, land and view included.

The 62-year-old Salazar, a father of 10 and grandfather to 20, has never earned more than a humble income squeezed from farming and sporadic work maintaining tortilla-making machinery. So how could he afford such a home?

It took an unprecedented admission by Cemex, the world's second-largest cement maker and one of Mexico's largest companies, to make Salazar's dreams come true. In the mid-1990s Cemex was suffering along with most other Mexican compa-

nies from a devastating currency devaluation that eliminated more than 1 million Mexican jobs, and cut the buying power of the Mexican peso roughly in half.

Cemex issued a proclamation – its “Declaration of Ignorance” – rare among Mexican firms and unusual for publicly held firms anywhere: The company basically said it had no idea how to reach the millions of poor Mexicans who spend as much as 10 years building the average four-room home on their own and in fits and starts dependent on irregular cash flows and lulls in spike-prone prices for building materials.

The company set out to study the “*auto-construccion*” market – the do-it-yourself home building business that dominates Mexico's transitional countryside, where farming no longer yields even subsistence incomes, and in the ad hoc neighborhoods that seem to pop up almost overnight on the fringes of Mexico's cities. The company put its faith in Hector Ureta, an urban planner by training who believed the company had to radically alter its business model to achieve new sales in marginal neighborhoods.

Under Ureta's leadership, Cemex found out more than it bargained for – almost by accident the

PHOTOGRAPHS BY JOSE CORREA

by RICARDO SANDOVAL



*Under Cemex's
Patrimonio Hoy
program, 62-year-old,
low-wage worker
Fernando Salazar
Nunez is building his
dream home in the
country 30 miles
outside Mexico City.*

EL RALON

WHEN THEY SEE HOW FAST *their neighbors are building, and how nice the homes look, they want to join.*

company appears to have shaped a global model for reaching consumers and clients in previously ignored neighborhoods in the underdeveloped nations around the world.

As a result, other companies, including Cemex's building materials competitors, are planning their own versions of the company's *Patrimonio Hoy* – Personal Property Today – which combines aspects of microlending and community money-pooling – to help low-income Mexicans build homes faster and better. And since Cemex makes its building materials easier to buy, the company is moving its products in a market segment it once believed was impenetrable and not potentially profitable enough to pursue.

Here's How Patrimonio Hoy Works:

Would-be homebuilders pay about \$14 a week, for 70 weeks. What the roughly \$1,000 buys is consultations and inspections by Cemex staff architects, and scheduled deliveries of materials divided into building phases that cover the 70 weeks. All building materials, purchased with the Cemex advisers and using the company's considerable buying power, are kept at stable prices through the life of the construction project, shielding Cemex's "partners" from sudden price hikes and supply shortages common on the open market. And, if partners run into shallow employment periods, they can bank their materials for a while. Partners found they were building homes faster, and generally cheaper, than they could on their own.

"An architect wanted to charge me \$100 for just the initial visit, and about \$500 more for his services. So just the free architectural service was enough to draw me into becoming a partner," said Lorenza Calixtro Miranda, an unassuming mother of four who is now recognized as the most successful *promotora* – recruiter – in the Cemex family. Underneath Calixtro's shy exterior is a natural-born saleswoman. Her day job is selling bread and vegetables home by home in communities at the base of Nevada de Toluca. All she seems to need is friendly reception for her thoughts and her soft – yet persistent – sales personality is turned on. Calixtro has convinced at least 1,000 families in and around



"We had to leave our ego behind," says Cemex's Hector Ureta.

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Toluca to become partners.

Cemex pays recruiters to show their neighbors how *Patrimonio Hoy* works. "When they see how fast their neighbors are building, and how nice the homes look, they want to join," Calixtro said. "And we make a show of delivering the materials to the home sites. The trucks roll into the neighborhood, we decorate them with symbols and advertisements for *Patrimonio Hoy*, which then calls out the neighbors who want to see what the fuss is all about."

Cemex is basically putting building materials in customers' hands, on terms tailored to the way they work and build. In return, the company saw its low-income partners bust a stereotype of the irresponsible poor: 99.2 percent of the \$42 million worth of materials that Cemex has distributed is being paid for on time, according to the company. And the bottom line is that since its inception, *Patrimonio Hoy* has sponsored the building of 10,000 homes in Mexico. A similar project was launched this spring in Colombia.

"That's all about the tons of cement that our doubters kept asking if we were moving, back when we were actually selling nothing and just studying the market," Ureta said. "We convinced them that if we changed our attitudes, unlearned our perceptions, and opened ourselves to learning how our customers lived and worked, we could build a whole new business model and carve out a market where it was thought there was no business for us."

Businesses following Cemex's example include Banco Azteca, a subsidiary of the Salinas Pliego group of companies that includes the Azteca broadcast network and Elektra, Mexico's busiest electronics discounter. Banco Azteca is Mexico's fastest-growing bank, precisely because it has identified low-income clients traditionally shunned by Mexican bankers as its core market. The bank's executives studied the way small businesses were started and how money was lent and repaid in marginal neighborhoods; its executives cite "The Fortune at the Bottom of the Pyramid," by University of Michigan professor C.K. Prahalad, among the intellectual inspiration for its home-mortgage business and a new line of small-business financing.

But it is Cemex's experience – the way the construction giant established a profitable foothold in Mexico's insulated poor neighborhoods – that serves as the real-world model for service-oriented companies and foundations.

Cemex used a grassroots approach. For months it studied communities firsthand, almost anonymously. This yielded priceless data on how and why people of little means built homes the way they did. None of this was easy. It took unusual patience from upper management to allow the unconventional market study to occur. Its authors had to push back against almost daily calls from some company executives to end the investigation, which was conducted much like an anthropological field study.

The company's chief executives held fast in its support,



Lorenza Calixtro Miranda (left), shown here with Salazar, has persuaded over 1,000 working Mexican families to partner with Cemex.

however. They reasoned that the unusual times Cemex was living through called for maverick business methods.

Ureta, Cemex's director for new-market development, recognized the market's potential: As many as half of Mexico's 110 million people live on less than \$2 per day, according to the United Nations. And, an estimated 30 percent of the nation's workforce is "informal," i.e., on the so-called black market, where no taxes are paid and receipts and pay stubs are nonexistent. Yet despite the severe economic malaise of the '90s, this huge segment of the Mexican population continued to buy fired mud bricks and iron rebar, and cement for its cinder blocks – they just were not buying directly from Cemex.

"We had to leave the Cemex attitude behind. We dropped the ego that would have us say 'We're from Cemex, and we're here to help,'" Ureta said, recalling how he assigned 10 professionals – architects, salespeople, and construction experts – to live in different poor neighborhoods for nearly a year. They were ordered *not* to offer advice on home building, and not to jump in when they saw construction techniques their college education told them should never work. "It was not easy at first because we were not seeing things through their point of view. We were going in with our preconceived notions of how things ought to be done. What we got was a sustainable, ethical business that's good for us and offers our customers a dignified way to achieve the dream of having a home."

Ureta saw that seemingly poor Mexicans were rich in guile and had been trained to be cynical and untrusting by a parade of politicians and dubious business pitchers. The politicians routinely offered migrating poor families cheap or free plots of raw land upon which to build, in exchange for ballot-box loyalty and a commitment to show up whenever street protesters or adoring crowds were needed for political purposes. Scammers

and Ponzi-scheme grifters often followed, and were gone in a flash (with the money) once the con was uncovered.

Ureta's team learned the ways of the *tanda* – a Mexican money-pooling plan similar to informal, cooperative savings plans in poor communities all over the developing world. The Cemex people found that too often the *tanda* money, intended for construction materials, went to other needs like the annual neighborhood party or some common infrastructure project like sewer lines or drinking water.

"The house building always had to wait," said Salazar, who took almost a decade to build his first project, a two-story apartment building needed to accommodate a growing number of his married children who needed their own places. In the past, young and poor Mexican couples started wedded life living in their parents' home, then they built their own houses brick by brick.

"Because of the program, my family now has three homes under construction, including this one for my wife and me," Salazar said as he pointed out the volcanic view from a large room that would serve as a dining room and sitting space. The room was cool and clean, even without the tiled floor that's to come. "We would never have done it so fast, and because the materials are more affordable, I'm building my home stronger and better. I've put in a foundation and columns for a third floor. Even if I don't build the third floor, the two-level house will be stronger than I imagined it could be." □



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