

**STRATEGIC TRANSFORMATION PROJECT OF A CEMENT COMPANY
(Cementos Diamante S.A.)**

by

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ABSTRACT

Competition in the cement market in Colombia has become increasingly bitter in recent years due to the shift from a demand market to a supply market. As a result of the economic opening process that Colombia is currently implementing, crucial and unavoidable threats have been posed to domestic firms such as Cementos Diamante S.A. These threats will dramatically change market conditions in the near future. Therefore, this company must redesign its overall strategy so that it is able to face the challenges inherent in moving from being a successful local player to becoming a strong international competitive enterprise in this industry.

The main objective of this thesis is to design an appropriate strategy that will enable the company to face these new challenges.

Thesis Supervisor: **Arnold C. Hax**
Title: **A.P. Sloan Professor of Management**

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Finally, I would like to give special gratitude and thanks to my wife, Angela Patricia Diaz, and to my son, Andres Villa Diaz, for their patience and support. Without them, I would not have come through this program successfully.

CHAPTER ONE

DATA GATHERING AND METHODOLOGY

The objective of this thesis, more than merely as information research, is to design a new strategy which the Colombian company, Cementos Diamante S.A., could implement in order to assist in facing the challenges of the future.

All the factual information in this document came from the archives of the company, mainly from the "Transformation Project" undertaken by company in 1996. This project was done with the support of IBM Consulting Group, and it took more than six months to gather all the relevant information that was ultimately approved by the top management team of the company in order to design a new commercial approach.

The company also conducted a customer survey with a Colombian firm that gathered and analyzed all the customer information presented in this document. Therefore, all the assessments made about the market, competitors, customers, company, and economic information in this thesis are strongly supported by these documents.

Applying the strategic frameworks as developed by Hax and Majluf in order to design an appropriate strategy for the firm is the main objective of this thesis.

The methodologies and frameworks followed in this thesis are described in the following documents:

- ***The Triangle: Creating a Distinctive Strategic Position***, by Arnaldo Hax;
- ***The Strategy Concept And Process: A Pragmatic Approach***, by Arnaldo Hax and Nicholas S. Majluf, and
- ***The Adaptive Processes: Linking Strategy With Execution***, by Arnaldo Hax.

CHAPTER TWO

COMPANY BACKGROUND

2.1. HISTORY

Cementos Diamante S.A. began in 1927 in Bogota, Colombia. Its objective was then and remains today the discovery and exploitation of sand, stone, coal, gypsum, and limestone mines, generating a profit by selling, distributing and transforming these natural resources. In addition, the company also produces, distributes, sells, and transports -- either itself or through third parties -- products such as cement, concrete, and prefabricated goods derived from these products.

Cementos Diamante S.A. (Diamante) is a group of companies that is comprised of several companies. Some of the most important ones are:

- Cementos Diamante del Tolima S.A.: a cement producer.
- Cementos Diamante de Ibague S.A.: a cement producer.
- Cementos Diamante de Bucaramanga S.A.: a cement producer.
- Cementos Diamante del Norte de Santander: a cement producer.
- Concretos Diamante: a concrete producer.
- Diamante S.A.: a concrete producer and the marketing and selling company for all the cements, concrete and stone products around the country.

- **Diamante Compañía de Financiamiento Comercial** - this company underwrites the finances for customers who need credit for buying products; at the same time, it converts the accounts receivable in cash.
- **Diamante Transportes S.A.:** a transportation service company.

This combined group is the second largest cement producer in Colombia, and its market share has grown from 15% to 25% in five years. Currently, the company has the largest cement facility in the country, operating with cutting-edge technology.

Exhibit 1 provides financial statements for 1995 and 1994 (exchange rate = \$1.00/Dollar). These were important years for the company because the new facility began, the new strategy of "Augmented Products with Service" was implemented, and the operation of two new complementary companies began as well.

Diamante produces cement, a commodity product, and it is difficult for the players in this industry to differentiate themselves from their competitors. Diamante designed and organized a series of strategic steps to give customers more than just the product itself (service); at the same time it enabled the company to start building a competitive advantage and improve its performance.

First, Diamante created a new **Finance Company** that offers revolving credit to clients when they need it, and at the same time it purchases the accounts receivable from the holding company. With this move, not only does the customer have a complementary service, but also the company liberates its own operating cash to be used for added growth without the high cost of new liabilities that need to become profitable for the business.

Second, Diamante created a new **Transportation Company** (critical for this kind of industry) that gives personal attention to its customers and assures correct and accurate delivery; at the same time, the transportation company became an additional profitable business for the holding company. The amount of investment in this new company was quite low because the trucks are owed by the drivers themselves through a leasing arrangement.

Third, Diamante created a new **Marketing and Concrete Producing Company** that directly manages all the relationships with customers, and supplies them with complementary products, such as concrete and mortar. With this company, the Diamante Group eliminated 70% of the distributors, improved FOB prices, and offered an integrated package of products and services to customers that provided many advantages.

Finally, Cementos Diamante S.A. reorganized its organizational structure based on the new challenge.

2.2. BUSINESS STRUCTURE

As mentioned above, Diamante recognized that it needed to change the way it did business within the industry in Colombia. The first part of Exhibit 2 shows the structure of the cement and concrete industry as it was until 1993. In order to understand the scheme, it is important to point out that at that time there was more demand for the product than supply, and companies did not have to focus their

efforts on marketing or even selling the products. All their efforts were focused on producing more volume at the lowest cost. Product distribution was the distributors' responsibility (except for concrete), and distributors were the only entities that were in touch with and knew the customers. Therefore, the "power" of the market as it appeared to customers was concentrated in the distributors.

When the market situation changed, however, and supply became greater than demand, the first company to react was Diamante. It designed a commercial strategy that included modifying the distribution system, coupled with a new commercial and marketing approach toward the customer.

The second part of Exhibit 2 shows the new business structure implemented by the company which gave customers not only a set of quality products but also offered whatever complementary services they might require. In this scheme, Diamante cut the non-necessary intermediaries (such as wholesalers and retailers who were selling only cement) that existed between the company and the customers. Instead, the company implemented the new *Centros Integrales de Mercadeo* (CIMs: Integrated Marketing Centers). The CIMs now act both as intermediaries and also take advantage of existing local concrete infrastructure which puts them closer to customers (constructors) with the entire set of products. By doing this, Diamante began to reap the benefits of the market power of its own business, it saved considerable distribution costs (large distributors' commissions, almost 20% of the selling price), and it began to establish close relationships with its customers by increasing its direct sales of a set of products.

It is important to note that the cost of the new direct sales infrastructure as implemented was about 10% of the selling price, but it gave the company a net savings of 10% plus knowledge and strong management of the market. By making more direct sales, the company acquired more flexibility to react to changes in the market. Diamante's competitors still do not have this capability, and when they finally do, Diamante will be ahead as the first mover in time, experience, and market share.

2.3. FUTURE CHALLENGES

Today, due to the growing globalization of Colombia's economy, competitors' reactions to the new situation, and customer trends in the market, Diamante must build a new strategic position that enables it to building and maintain unique advantages over the market.

Diamante's objectives for the near future are:

- to increase production capacity,
- to increase market share,
- to create new uses for its current products,
- to reduce production costs to match international standards, and
- to focus its operations on customer satisfaction.

In order to reach these objectives and meet future challenges, the company needs to define a new distinctive strategic position.

CHAPTER THREE

CHANGING TO A DISTINCTIVE STRATEGIC POSITION

Based on the new objectives and challenges of Cementos Diamante S.A. (Diamante), as described in the previous chapter, the proposal that follows is intended to create a distinctive strategic position for the company that will bring it a strong and unique competitive advantage: the Total Customer Solution.

3.1. THE CURRENT STRATEGIC POSITION

After analyzing Diamante based on the preceding descriptions and using the Strategic Positioning Triangle framework (see Exhibit 3) as outlined by Hax and Wilde, I believe that Diamante's current strategic position is in the "Best Product" strategy. The most important assumptions of the company's current strategy are:

- **Maintain tight control over production and operating costs**
- **Manage the distribution operation efficiently**
- **Purchase materials at a lower cost than current costs**
- **Reduce distribution costs**
- **Reduce variable production costs**
- **Place specialized people in specific tasks**

- Develop products and services better than those offered by other industry competitors
- Establish and maintain those operational differences that modify the normal characteristics of the products
- Remain vigilant at the cutting edge of technology in the design, development, and production of new products
- Develop products for specialized markets within the current infrastructure.

All of these assumptions, taken from a recent top management strategic workshop, make me confident that the company is focused on the best and lowest-cost product strategy.

3.2. THE CURRENT MISSION OF THE FIRM

The following are Diamante's current mission scopes for achieving its "Best Product" strategy position.

3.2.1. Current Products

The products that the company is currently focused on providing to customers are:

CEMENT: All types of cement required by constructors in the "grey area" of residential, business, and infrastructure construction. These products have a wide range of specifications and requirements. They can be

distributed in different sizes of packages or truck containers according to the customer's needs.

CONCRETE: The "ready mix" type of concrete results from mixing cement, gravel, sand, additives and water. Diamante is an industry leader offering the most advanced concrete products to satisfy all the requirements of customer construction

GRAVEL AND SAND: These products are used to produce concrete. Customers use the products for some construction elements in special projects.

FINANCING: Customers have access to automatic rotating financing which enables them to continue construction using Diamante products even when their financial situation is weak.

TRANSPORTATION: This service is given to market areas where customers require the products.

3.2.2. Current Markets

The current customer segmentation is based on the type of industry to which the customers belong:

CONSTRUCTORS (construction of homes, commercial facilities, industrial facilities, and general construction).

DISTRIBUTORS (wholesalers, retailers, and local stores).

INDUSTRIALS (producers of concrete, asbestos-cement products, and pre-produced construction parts).

INFRASTRUCTURE (including infrastructure construction for government, multinational companies, and local alliances and *consorcios*).

The chart in Exhibit 4 shows the kinds of products used by customer type. Except for distributors, all the customers buy cement, concrete, sand, and gravel that are complementary products to their respective processes.

3.2.3. Current Geographic Market

Diamante currently serves all of Colombia as its market area. Diamante has divided the country into regions in order to better serve the customer. Exhibit 5 shows a map of Colombia and the different regions which Diamante serves.

THE CENTER of the country, where 80% of the country's GDP is generated (includes: Bogota, Medellin, Cali and their surrounding areas).

LOS LLANOS, which includes the eastern portion of the country where there is less population.

LA COSTA includes the area closest to the sea coast.

LOS SANTANDERES that includes the northeast part of the country.

It is important to understand that the topography of the country is complex, and Colombia's natural geographic barriers influence market segmentation. It is also a significant determinant to the cost of transportation between the cement plants and the customers. However, geographical considerations do not have as much impact on concrete products because they are produced locally.

3.2.4. Current Unique Competencies

Diamante's unique competency is focused in the technology of the product. This means that optimizing the production process through high technology, achieving the highest operational margin level in the industry, developing new products, and producing the highest quality products are the most important components of the company's current competitive advantage compared to other industry players.

Diamante can always give its customers the products they want, and the company is flexible in designing products that fit construction or process technical requirements. Competitors do not have the same degree of flexibility.

Finally, Diamante has the best specialized people in the industry and a highly committed top management team that is considered by Diamante's customers to be the most competent in the industry.

3.3. THE NEW DISTINCTIVE STRATEGIC POSITION

Even though Diamante is closer to its customers than it was ten years ago, this position still does not give the company a unique competency among customers when -- sooner or later -- competitors achieve the same technological level.

This section will show that Diamante needs to help customers improve their economic results in order to achieve Customer Lock-in.

3.3.1. Customer Value Chain

In determining the most important differences among the value chains of each customer segment, the chains can be classified into three main business categories: distributors, constructors, and industrials. In Exhibit 6, the three generic types of value chains that correspond to this classification are shown. There, the reader can see three typical value chains in which customers are grouped based on their similarity in their operations, operative problems, financial-organizational process requirements, suppliers, services, productive infrastructure, and characteristics of their clients:

DISTRIBUTORS: (including wholesalers, retailers and local stores) whose main objective is product commercialization.

CONSTRUCTORS: (including constructors of all type of buildings and infrastructure) where their core business is based on the design, construction, and sale of all kind of facilities.

INDUSTRIALS: (including transformers of products into new and/or different final products) which use the cement and concrete as raw materials in their production processes.

As can be noted in these classifications, the needs and interests of each of these clients regarding Diamante's products and services are very different. Those differences are explained in detail in the following section.

3.3.2.Customer Needs

Based on the different value chains, on the company's transformation project undertaken in 1996, and on a customer survey done by the company in 1996 (see Exhibit 7), I have included here the result of my analysis of the most important customer needs for each of the categories: Distributors, Constructors, and Industrials. (Note that the needs order is different for each of category.)

DISTRIBUTORS: The five most important needs (in order of importance for them) are:

- attractive conditions of negotiation,
- punctual delivery of products and services,
- good product quality,
- fast credit approval, and
- opportunity for information and consulting services.

In addition, from their value chain it can be inferred that they also want to reduce the time in their delivery cycles, lower levels of inventory, increase flexibility of direct delivery from Diamante to their customers, and implement an efficient information system between themselves and the company to make order processing easy and fast.

CONSTRUCTORS: The five most important needs are:

- good product quality,
- punctual delivery of products and services,
- attractive negotiating conditions,
- opportunity for information and consulting services, and

- **fast credit approval.**

In addition, from their value chain it can be inferred that they also want to reduce time in their construction cycle; they would like faster, cheaper, and sufficient financing sources; an assortment of products that facilitate their purchasing process; and materials that would help them create distinctive construction designs.

INDUSTRIALS: The five most important needs are:

- **opportunity for information and consulting services,**
- **good product quality,**
- **punctual delivery of products and services,**
- **attractive negotiating conditions, and**
- **fast credit approval.**

In addition, from their value chain it can be inferred that they also want to reduce their production cycle time, create a more quality stabilized production process, and increase their level of customer satisfaction.

In general, each category also wanted better quality at lower prices, optimal use of products, and optimization of their inventory management which represents huge cost savings.

The most important thing that Diamante needs to take into account is that it has to help its customers successfully manage and control their critical success factors in order to achieve better economic results.

The following three sections describe how the company can improve its customers' economics in order to achieve the total customer solution or "Customer Lock-In" position.

3.3.3. Factors Impacting Customer Economics

Based on the above analysis, there are a number of factors that have a strong impact on customer economics, such as:

- DELIVERY:**
 - Punctual delivery.
 - Reduced time in the delivery cycle.
 - Managing lower inventory levels
 - Flexible delivery
- INFORMATION SYSTEMS:**
 - Opportunity for information and consulting services.
 - Agility in the information exchange for purchasing and ordering
- CONSTRUCTION CYCLE REDUCTION:**
 - Reduce construction cycle time and costs (for constructors)
- ASSORTMENT:**
 - Availability of an assortment of products "Grey" construction, with quality and characteristics that make the difference in design (for the constructors).
- ONLY ONE CONTACT:**
 - On company contact instead of one contact for each product, which would facilitate the purchasing process.
- PRODUCTION PROCESS CYCLE:**
 - Reduce the customers' production process cycle time and costs (for the industrials).
- FINANCING:**
 - Fast, cheap and available credit.
- PRODUCT:**
 - Good product quality and stability.
- PRICES:**
 - Fair and competitive prices.

3.3.4. Diamante Actions That Can Improve Customer Economics

To help improve the economic results of its customers, Diamante should include the following actions into its strategy of reaching and retaining customers:

ACTIONS IN DELIVERY

To improve Diamante's delivery process and help customers, the company has to be able to predict in advance the volume of products and the places where they may need them daily. In designing a complete "logistics package", Diamante could include the customers' turnover rate, average transportation cycle time, average volume consumed, the average size of delivery batch, and other information to assure that the product will be on time at the customer's location. By using this "logistics package", Diamante can also help its customers keep their inventory levels lower, similar to the "just in time" philosophy. Such a logistics package might also include automatic mechanisms for unloading the product at the usage place, an IT infrastructure to support the delivery process and its registration in the customer's accounting system, and a more sophisticated delivery programming software that can control delivery results.

ACTIONS IN INFORMATION SYSTEMS

Diamante should develop a system (both software and hardware) that would be a good interface between the customer's systems and the company's (this concept creates a source of switching costs to the customer). By doing this, Diamante can speed and simplify the purchasing and ordering process and have the

input into the delivery, billing, and ultimate control of customer satisfaction. This "Information Package" is the key to achieving customer savings which ultimately Diamante must produce in order to give its customers as feedback in the total operation.

ACTIONS IN REDUCTION OF THE CONSTRUCTION CYCLE TIME

In this regard, Diamante can do the following:

- development of accelerated hardening and resistance-achieving products that would shorten the wait time in construction
- development of products and technical systems that facilitate the placement of the products in the building process, thus saving the customer labor costs and time
- help the constructor in the design and planning processes by offering "faster" products that facilitate their materials choice process.
- offering a warranty of product quality that avoids the demolition and reconstruction of building parts that result in delays to customers.
- support the customer in the technical control process of construction that would avoid delays in correcting mistakes.

ACTIONS IN ASSORTMENT

Beyond the traditional products offered, such as cement, concrete, sand and gravel, Diamante should obtain distribution licenses for complementary products needed in the "Grey" part of the construction process. These are products such as

bricks, figured steel, wood, and all other important materials required by the customer. By doing this, the company would be able to offer a complete "product package" to its clients in only one step and with only one negotiation contact with one supplier. This action would save time and would give the customer better negotiating conditions (e.g., price and credit). In the case of claims or problems with the products, customers would have only one responsible source that would respond quickly and efficiently to their complaints and needs. Diamante can also offer customized products for each type of construction, which would make them unique and attractive to the clients' customers.

ACTIONS TO IMPLEMENT ONLY ONE CONTACT

Diamante needs to reorganize its organizational structure and its processes so that it can satisfy this requirement and include all the areas that are affected in the new strategy. For example, according to the strategy, the company could segment its organization by type of customer. This means that each type of customer would have a similar value chain and would be attended by one business area of the company to meet all the requirements of that customer. This one contact would manage sales, attend to claims, and handle whatever the customer may need. From there, the business area must coordinate and negotiate with the rest of the organization all the items that concern his customer's satisfaction.

The new organizational structure of the company should strongly support this requirement. It is not only feasible (Diamante has already done a pilot with excellent results), but also critical for the new Total Customer Solution positioning proposed

here. In addition, Diamante should develop an IT strategy that will support the requirements of the new structure.

ACTIONS TO REDUCE THE CUSTOMERS' PRODUCTION PROCESSES

Diamante should develop products that enable its customers to optimize the use of materials and reduce production costs, required storage capacity, and time in the product dosification process. The need to accelerate the hardening process and achieve greater product resistance applies to the industrials too. Accelerated hardening of cement and concrete has enormous positive effects on the reduction of customer production cycle times. The quality and stability of Diamante's products is an important determinant in the quality and stability of its customers' final products.

ACTIONS IN FINANCING

Diamante should design financial tools that permit its customers to obtain fast, cheap, and sufficient credit to ensure the availability of products throughout the construction period, thereby avoiding delays due to lack of resources. One possibility might be to offer a financial package that includes a sophisticated revolving credit system which used the facilities under construction as the corresponding collateral that would assure the company of regaining its resources.

ACTIONS IN PRODUCTS

According to the requirements described in each area of improvement, Diamante should develop all the products required by its customers. The company needs to increase its product scope to add complementary commercial products for the "Grey" part of construction. It also needs to maintain a cutting-edge technology position in the production process to assure the quality and stability of its products.

In addition, the company should continue to think about growth in installed production capacity that will support the availability of its products.

ACTIONS IN PRICES

Diamante needs to change its pricing structure to take into consideration the new "bundling" of products that will assure the customer that they will get the most competitive price for the value added received with the "total solution package" offered. This "total solution package" includes alternatives for improving the customers' economics. The company's principal objective with this strategy is to increase its sales, not only by attracting and acquiring more customers, but also by increasing the amount of sales to each customer, especially those that represent more profits for the company and a long-term relationship. Using the Total Customer Solution, Diamante would make additional profits from those factors that customers value more according to their business value chain.

The following is a more detailed list of those things that add value, from the customer's perspective, and those that make them more willing to pay a premium price in addition to the cost of the product itself:

In the Delivery and Logistic Package:

- The availability of an electronic order system for all the required products. The system would include permanent status information about the customer's orders regarding delivery dates, payments, balances, and the due dates of bills.
- The electronic management of Diamante product inventory (and others) in the customer's location which shows amounts added, amounts withdrawn, and the balance remaining for each item, as well as the associated order point alarm that would guarantee that the customer never runs out of stock.
- Using Smart Cards, Diamante could offer automatic registration of a delivery once the product arrives at the customer's place.
- The transportation company would ensure that backload costs to the customer would be reduced or eliminated because Diamante is in charge of finding compensating loads to avoid having trucks travel empty.

All of these information services could be provided using the Internet as the basic, inexpensive tool for information interchange between Diamante and its customers in any part of the world. By using these services, customers would save the cost of at least three purchasing people (depending on the customer's size) and one inventory control person. Diamante could eliminate order takers and focus its sales force on other more critical areas such as customer service and increasing market share.

In The Product And Quality Package

The total performance and quality warranty of Diamante's products would cover the following:

- For each unit of product delivered to the customer, the company has a lab-tested sample. Therefore, Diamante would know what product was used in any part of a structure under construction. In addition, the company has ultrasonic test equipment which enables its quality control people to know seven days in advance the final results of a product's performance at the end of 28 days. By doing this, a constructor would need to demolish only that part of a building where it was determined that there was a product problem. In such a case, Diamante would assume those costs. Competitors do not have this kind of service, so when they realize there is a problem (later than we would), the customer has to demolish not only the affected part but also those that are built over it. Diamante is offering a procedure that reduces time and costs for both the builder and the company, estimated to be 80% of the possible problem-fixing costs.
- From the point of view of planning and time reduction in a customer's business, Diamante could also help them in their building planning step by offering new materials with better performance and lower cost. Diamante could also be an important consultant about new technology, not only with regard to construction materials but also new construction systems that will help customers to save time, labor, and material

costs. It is estimated that builders could save up to 20% of their construction time by using new technologies. In addition, by supplying accelerated products, for example, Diamante could save up to 50% of the construction time for the "Grey" portion. This means that the builder would be able to finish his construction 10-20% earlier than the original schedule. This represents earlier sales, less financial costs, and savings in other costs that are derived from it.

The cost of these concepts to Diamante (in addition to the already allocated R&D costs) would be: 20% more time required of the sales force dedicated to one customer and, in addition, the cost of training people to correctly advise customers in this regard. It is estimated to be 20% of current total sales force costs.

In The Product Package

Focusing on complementary products, i.e., those that Diamante does not produce directly, such as steel, wood, and bricks, the company would be able to negotiate with the suppliers based on expected huge volumes resulting from the combined total of all Diamante's customers' orders as leverage for obtaining better prices. Any realized savings could be transferred to its customers after carving out the company's negotiating costs.

Exhibit 38 presents a table showing the estimated prices that customers would pay if they bought these products and services separately; the estimated costs if they bought all of them from Diamante; and the estimated savings for the customer

and for company for each product and service provided. The exhibit also shows the additional financial services being offered.

From the exhibit, we can infer that there is a 18.3% difference between what the customers get now and what they would save using only Diamante as a supplier for the "Grey" part of construction. Using such raw differences, the company needs to determine in more detail the final "bundled" price to the customer based on current customer preferences, because this information is not available at this stage of the study. What is clear from that exhibit is that the raw difference found exactly tracks the new proposed strategy, and it will become a big switching cost for the customer if the company decides to keep it as it is presently stated.

3.3.5. The Total Customer Solution As the New Strategic Position

The proposed Total Customer Solution should include: a complete "Logistic Package", a complete "Information Package", a complete "Assortment of Traditional and Complementary Products Package" for the "Grey" part of construction, with the quality required to reduce construction and production process cycle time, a simplified negotiation process, and a "Customized Financial Package" for the whole solution.

Therefore, the proposed new strategic position that the company should adopt is:

OFFER THE BEST TOTAL COSTUMER SOLUTION BY BUNDLING ALL THE ABOVE PACKAGES AND CHARGING A FAIR AND COMPETITIVE PRICE FOR THE VALUE ADDED.

This new competitive position in the Strategic Management Triangle (see Exhibit 8) will enable Diamante to achieve a sustainable competitive advantage against its competitors because the switching cost for customers will be very high. In addition, this would be a unique solution in the industry that would be hard for competitors to match, as will be explained in further sections of this thesis.

CHAPTER FOUR

DEFINING THE NEW VISION OF THE COMPANY

Having established a new strategic position for Cementos Diamante S.A., now the company needs to establish a new Vision for the firm that will lead its employees, customers and shareholders into the future.

4.1. IMPORTANT FUTURE CHARACTERISTICS

The following are the components of Diamante's future vision that involve all the concepts mentioned in Chapter Three:

- The company must be solution oriented.
- The company must have a high level of technology.
- The company must have the best organization structure and acquire the finest human resources.
- The company must compete in international markets (defined by management as The Americas first).
- The company must focus on improving its customers' economics in order to survive and to grow.

4.2. THE NEW VISION OF THE COMPANY

Based on the above elements, the suggested new Vision of the Company would be as follows:

***“LET US BE IN THE AMERICAS THE CUSTOMERS' BEST ALLY IN GENERATING AN INTEGRAL AND TOTAL SOLUTION FOR THE CONSTRUCTION INDUSTRY BY IMPROVING OUR CUSTOMERS' ECONOMICS.*”**

CHAPTER FIVE

DEFINING THE NEW MISSION OF THE COMPANY

Based on the Vision defined in Chapter Four, the new operational scopes for Cementos Diamante S.A. which will define the new **Mission of the Firm** are:

5.1. OPERATIONAL SCOPES

5.1.1. Product Scope

In order to be consistent with the Vision already defined, Diamante should not only continue to offer its current line of products, such as cement, concrete, sand, gravel, financial services, and transportation services, but the company should also begin to offer complementary products required for the "Grey" part of the construction process, such as bricks, figured steel, wood forms, and mortar:

Bricks: Includes clay and cement-based bricks needed in building the main structure of buildings.

Figured Steel: For reinforcing the structures of buildings; the builder embeds them in columns and floors.

Wood Forms: Used to create different shapes of concrete components in the "Grey" part of construction.

Mortar: Cement mixed with sand, water, and additives to form a mixture used to cover walls in the "Grey" part of the construction process.

In order to add these complementary product lines, Diamante should negotiate distribution licenses for the products to be offered. Then the company can design customized packages of products that correspond to the Total Customer Solution. Exhibits 9 and 9A present matrices comparing Product versus Market Segmentation, which shows the new product scope that would be presented to customers in a bundled package designed to improve the clients' economics.

Regarding product scope, it is important to point out that Diamante should develop new uses for some of its existing products in order to widen its market base where competitors do not yet have any business. This is an important point. By doing this, Diamante will increase its sales volume at relative higher prices and with the unique advantage of having the expertise and leadership in those new areas.

5.1.2. Market Scope

Market segmentation as presented earlier will not have changed because Diamante's top management is convinced that market segmentation by industry type is the most appropriate for providing the best customer solution results.

Market segmentation by industry type based on which category each customer belongs to, is shown in Exhibits 10 and 10A. Arguments supporting this market segmentation are:

- **the customers' priorities and needs are similar among the customers within each industry; and**
- **the company's knowledge and development of its customers can be better accomplished by type of industry than by, for example, type of products bought. The customers' value chains are very different from one industry to another, but they are similar within the same industry.**

5.1.3. Geographic Scope

Diamante will increase its geographical scope, moving from just a local Colombian company to becoming an international player covering the full area of The Americas as a first step in its globalization process. Exhibits 11 and 11A show the globalization process described here and the current geographic market area that will also be aggressively pursued.

5.1.4. Unique Competencies

The current and future unique competencies of the company are:

- **Continuous research and development of products**
- **Integration (bundling) of products and services (technical and financial).**
- **Continuous utilization of leading-edge technology in production and service processes.**
- **Increased Diamante brand recognition at the national level.**
- **Continued seeking and development of the finest human resources**

- **Establishing a new customer focus in the company that enable it to be flexible and respond quickly to market changes.**
- **An excellent information system implemented to support the new market approach**
- **Flexibility in the company's business processes achieved as a result of its organizational transformation.**

By helping its customers to improve their economic results, Diamante will have create a unique competency over its competitors. The switching cost for the customer will be larger than the discounted price that competitors may offer them. In addition, Diamante's current R&D capabilities, together with its leading-edge technology in production processes, will give the company enough flexibility to react quickly to new market challenges that might be presented by competitors.

In summary, the combination of offering a bundled package of products and services combined with the company's technical capabilities in production and organizational support, will create unique competencies that the company's competitors would find difficult to imitate.

5.2. THE NEW MISSION

The challenges facing Diamante as a result of the radical changes in the product, market, geographical, and new competencies scopes are:

- Penetrating the market with the new complementary products used in the "Grey" part of construction
- Developing a commercial strategy that will enable it to successfully reach all the market segments established in the new strategic position.
- Transforming its organizational structure to enable the company to support the new strategic position.
- Shifting the company's focus from being a local company to becoming an international player in The Americas.
- Developing strategic alliances with other complementary companies that will enable it to complete the customer solution.
- Designing customized bundled solutions for Diamante's customers and introducing these solutions as revolutionary concepts in the industry.

Therefore, the new **Mission of the Company**, which summarizes all the key points regarding product, market, and geographic scopes and the company's unique competencies could be stated as:

We are a committed and continuously growing team that is focused on the development, production, and commercialization of bundled construction products and services in Colombia and in The Americas.

We have innovative distribution and marketing strategies, excellent products and services integration, and good brand recognition at the national and international levels which enable

us to deliver total solutions to our customers that will improve their economic results.

We are an organization in continuous transformation to meet ongoing growth through human resource development, the use of the best leading-edge technology, and the protection of the environment.

CHAPTER SIX

ENVIRONMENTAL SCAN

6.1. THE ROLE OF COLOMBIA'S CEMENT IN LATIN AMERICA

In 1995, cement production in Colombia represented 9% of the total amount of production in Latin America. The most important producing countries are Mexico and Brazil, whose 1995 market shares in Latin America are 31% and 26%, respectively. Total volume in Latin America is 95 million tons per year (see Exhibit 12).

6.2. THE ENVIRONMENT OF THE CEMENT INDUSTRY IN COLOMBIA

The major determinants of demand for cement and concrete are infrastructure development, trends in governmental monetary policy regarding urban and rural development, and the amount of financial lending resources available to construction companies. Indirect macroeconomic factors, such as population growth rate and GDP growth trends, also impact demand.

Until now, these factors have been favorable to the Colombian cement industry. Furthermore, the production cost of cement in Colombia is one of the

lowest in the world. With this cost competitiveness, Colombia became the third-largest exporter after Mexico and Brazil. Major importers of Colombian cement are the U.S., Ecuador, the Dominican Republic, the Caribbean nations, and the Antilles.

However, fundamental changes in the way of doing business are occurring within and across the industry. Manufacturers must reduce the length of their supply channel in order to eliminate unnecessary channel costs, and commercial networks based on rapidly developing communication systems are allowing them to do this. Market players that actively flex with these changes will be able to provide more sophisticated and expanded customer service, and therefore will gain competitive advantage against other competitors. The fundamental game rule in the cement business is change.

Another new trend is that cement exports have significantly decreased in recent years. The main reasons come from macroeconomic factors that have changed, as follow:

- Increasing domestic demand in Colombia with higher local prices than international prices;
- Appreciation of the real exchange rate;
- Cautions adopted to avoid anti-dumping penalties assessed by the U.S.

Regarding domestic demand trend of cement, the market for 1998 is expected to be brisk, but at the moment, the market growth rate is forecasted to decrease. However, within two or three years, the market should restore itself to its previous growth rate due to huge governmental investments in infrastructure construction.

6.3. INSTALLED CAPACITY AND INDUSTRY PRODUCTION

Since 1970, the installed production capacity in the cement industry has dramatically increased by up to 10 million tons per year in 1995. The capacity utilization ratio has been almost 95%, along with the increased demand.

Total capacity projection in 1997 is expected to reach 14 million tons per year, a 40% increase compared to 1995 (see Exhibit 13).

6.4. MARKET SHARE ANALYSIS

The market structure of players in this industry is unique and has many implications for strategy formation. The impact of these unique characteristics on market share distribution is shown in Exhibit 14. There are eleven players in the cement industry market. Among them, eight companies are owned by one conglomerate, leaving the remaining three Diamante, Boyaca and Samper as additional players. Total market share in 1995 was 49%. These players will significantly influence the shape of market structure and the game rules.

One noticeable point in the market share is that Diamante's market share has rapidly increased, due largely to increased production capacity. But the market was readily able to absorb this additional supply. The main concern for Diamante is what will happen if every market player increases its production capacity. In fact, most players already have plans to do just that, or have already begun building new

facilities. This will likely result in a price war, leading to lower profitability across the industry, and the possible exit of some market players -- ultimately leading to a more oligopolistic market structure.

6.5. FUTURE CHANGES IN THE COLOMBIA CEMENT INDUSTRY

6.5.1. Market

In the past, demand was higher than supply, which resulted in higher profitability for the industry as a whole. Marketing efforts focused primarily on delivering products at reasonable prices; in addition, the domestic market was protected from foreign competition. However, as production capacity increased, market conditions began changing as well. Supply exceeded demand; prices declined accordingly. This led to strategic alliances among several market players, and competition in the area of service became intense. There is a strong likelihood that in the near future international competitors will enter the domestic market as another potential threat, as Colombia moves toward an open economy.

6.5.2. Business Strategy

Until now, most market players have focused on cement and concrete products. In general, market share depended on production capacity, which was closely related to the players' financing capability. Investment in technology was generally neglected. Product quality was not a critical factor in doing business

successfully. There was still room to reduce production costs in their manufacturing system, but no company pursued this idea seriously. However, the result has been that operational margins have begun to decline. This has led to new trials, targeting fundamental change across the entire business system, that are occurring with the leading companies. Changes include:

- Shift to a greater customer focus.
- Emphasis on a flexible management system necessary to simultaneously approach a number of customers.
- Diversification of product offerings.
- Higher investment in new technology.
- Pursuit of the lowest-cost position driven by standardization.

6.5.3. Organization

In the past, organizational culture in most companies was bureaucratic, hierarchical, and boundary-oriented. Operational evaluations were undertaken only to assess financial performance. However, recently a few leading companies began to emphasize cultural change in their organizations, and the remaining companies are beginning to follow this trend. For example:

- Trends toward high performance organizations and teams.
- Creation of business and service units for value-added activities.
- Increased awareness of the business process.
- Performance measurement of different parts of the process.

6.5.4. Regulation

The current situation is, in short, characterized by loose environmental regulation, a high tax rate, weak tax controls and, fortunately, a protected market. However, environmental regulation is becoming tighter, and tax regulations are also becoming less favorable. The market is expected to be opened to international competition soon.

6.6. PORTER'S FIVE FORCES ANALYSIS

6.6.1. New Entrants

New competitors, such as multi-national companies, are entering the market, but they will encounter the following bottlenecks and opportunities:

- High distribution costs and lack of a distribution network.
- Difficult access to raw materials.
- Declining product prices
- High investment costs for infrastructure.

6.6.2. Suppliers

The cement industry is highly vertically integrated. The influence from suppliers is very limited, for the following reasons:

- Moderate quantity of all suppliers in the short run.

- **Moderate pressure from the industry to obtain lower prices from suppliers.**
- **Modest product customization offered by suppliers**
- **Low possibility of downstream vertical integration of the current supplier.**
- **Low possibility of upstream vertical integration of the current supplier.**

6.6.3. Customers

- **Greatly increased number of small customers in the short run.**
- **High pressure from customers for lower prices.**
- **Moderate possibility of upstream vertical integration of the current customer.**
- **Moderate level of product customization offered by the industry to customers.**

6.6.4. Substitute Products

- **The price of cement inhibits substitute products.**
- **There are few or no efficient alternatives to concrete.**

6.6.5. Current Competitors

- **High growth possibility of the industry.**
- **High possibility that one or two companies will dominate the market.**
- **Moderate quantity of customized products in the short run.**

- High possibility of lower fixed costs among competitors.
- High possibility of similar strategies among current competitors.

6.7. FINANCIAL INDICATORS COMPARED WITH COMPETITORS

Exhibit 1 presents the financial statements of Cementos Diamante SA for 1994 and 1995. The exhibit also includes various financial ratios, which give a better picture of the company's performance.

In order to understand the financial behavior of the company during the past three years in comparison with its competitors, it is important to note that the company built a new cement plant in 1994. The impact of this construction is significant because this type of industry is capital-intensive. As can be seen in Exhibit 15, the most important financial indicators -- Asset Turnover for 1994 -- declined due to construction of the new plant which subsequently began production at the end of 1994. For that reason, there was less sales volume to absorb the increase in assets. However, by 1995 the Asset Turnover indicator began to show recovery.

The same exhibit also shows the volume produced by the new plant, and it shows that the price of products went down as a normal reaction among competitors. Therefore, the net income margin also declined in 1995.

Market share increased in 1995 due to an aggressive marketing strategy that was put in place to counter the reaction of competitors and to ensure sales of the increased volume of product.

Other indicators in the exhibit are customer satisfaction and gross margin. Customer Satisfaction has only one piece of data because this was the first time the company measured that factor (hence it is unable to measure it meaningfully yet), and it showed a high level of acceptance in general terms. The gross margin in 1995 was the same as in 1994, even with the decrease in sale prices.

6.7.1. Return On Assets (ROA)

In Exhibit 16, there is a graphical representation of the ROA indicator for all the companies in the market, including Diamante and its competitors. As can be seen, Diamante had the highest ROA in the industry due to its low production and administration costs, owing to the company's strategy of mass production using the best technology. This index indicates that Diamante is ahead of its competitors and will remain in this position into the future based on trends among the other companies.

6.7.2. Return On Equity (ROE)

Exhibit 17 shows that Diamante had the highest ROE of the industry, which has allowed the company to be an attractive investment option for foreign investors. In fact, in 1994 the company raised equity funding from the international capital market that enabled it to decrease its debt ratio which had grown very high

in 1993 (see the Debt Ratio section below). Again, Diamante is ahead of its competitors in returning value to the stockholders.

6.7.3. Debt Ratio

Diamante used to have a high debt ratio resulting from its growth strategy (e.g., the company doubled its installed capacity in two years). However, as seen in Exhibit 18, the debt ratio decreased from 45% to 30% in 1994. As pointed out in ROE section, Diamante was able to raise equity capital from the international capital markets which enabled it to create a healthy capital structure that will help the company continue with its growth plans for 1998.

Even with these actions, Diamante continues to have a high debt ratio compared to its competitors. However, the competitors have very old capital equipment that must be upgraded sooner or later if they want to remain viable in the business.

6.7.4. Gross Margin

Exhibit 19 shows that Diamante has the highest gross margin in the industry even though there are two other companies (RioClaro and Valle) that are becoming comparable. The trend in the gross margin factor for Diamante will be growing more than its competitors because of Diamante's use of leading-edge technology that the company is implementing. According to Diamante management this new technology will enable the company to perform even better in the future.

It is important to note that this situation will remain relatively stable for at least over the next three years because it will take this span of time before the competition begins to upgrade their technology. Therefore, during this "window" of time, Diamante will widen its lead among its competitors if it adopts the market transformation plan proposed in this thesis.

6.7.5. Operational Margin

When considering this financial index in Exhibit 20, Diamante's position is high. However, the operational margin decreased in 1995 due to the fact that the company invested in its marketing, sales, and distribution areas to ensure its ability to sell all the new volume produced by the new plant. According to company managers, this slight decrease will remain for one more year as the whole commercial strategy is put in place.

6.8. EXTERNAL OPPORTUNITIES AND THREATS

Basically, this industry is moderately attractive because market size continues to grow. Cyclical fluctuations in demand do not seem to matter. The growth trend is stable. However, changes in the market structure among existing market players is imminent because the game rules controlling success in this business are changing. The expected changes would result in the following opportunities and threats:

- **Financial flexibility will improve with new financial strategies.**
- **There will be cultural conflicts in some areas of operation.**
- **Demand will drop in the short run.**
- **Pressure from environmental policies and requirements will increase.**
- **Perspectives among larger cement producers in Latin America in the domestic market will change.**

As a comparison, let us suppose there was a vicious cycle similar to the following:

the entrance of the largest current producers in Latin America, coupled with increased domestic capacity cause a significant impact on profitability. In order to maintain current market share, Diamante lowers its sales price. What makes this scenario worse is that Diamante has sufficient capability to serve its smaller customers, who are more profitable and less price-sensitive. The company's tendency to depend on larger construction companies increases as time passes. Accordingly, profitability also deteriorates. In order to avoid financial distress, the company discontinues its investment in IT in order to reduce distribution channel costs and provide better service to end users. Ultimately, the company finds itself in a vicious cycle from which it cannot escape.

The strategic issue in this situation is this: Who will initiate new business game rules that wisely meet changing customer needs and take into consideration the external environment?

CHAPTER SEVEN

INTERNAL SCRUTINY

An internal scrutiny was conducted at the business level within Cementos Diamante SA in an attempt to systematically identify ways for the company to establish a strategy that would enable it to gain a sustainable competitive advantage. The analysis was done beginning with the general model of the business and working down to a lower level which disaggregates relevant stages of the business activities. Key success factors are subsequently inferred from these various levels of analysis.

7.1. General Model of the Business

A model of the cement and concrete business is shown in Exhibit 21. One of the key differentiators of the Diamante model is the replacement of a large network of wholesalers and retailers with a commercial network managed by Diamante. This allows many customers to deal directly with Diamante and significantly reduces the two stages of middlemen costs. The realized reduction in distribution costs is estimated to be about 70%.

Transportation also contributes significantly to the overall cost of cement purchases. The establishment of a transport company directly owned by Diamante adds value by providing on-time delivery as well as simplifying the transaction process by excluding a third party. The investment in transportation was quite low as the result of a leasing program for the truck owners. This relationship is mutually beneficial to both parties: Diamante realizes additional profits, and the truck owners are a larger customer base to manage their trucking route efficiently.

Diamante's finance company adds to the customer services that are available by providing a revolving credit facility to the company's customers. Diamante also purchases the accounts receivables from the holding company which frees up operational cash flow to fund growth without adding new liabilities.

This unique business model adds to the level of financial performance over most of Diamante's competitors, as shown in Exhibits 16 to 20, creating differentiation through higher levels of customer service.

7.2. THE VALUE CHAIN

Using Porter's framework of a value chain, Diamante's business process is disaggregated into the various key stages, as shown in Exhibits 22 and 23. There are four *primary activities* that describe the movement of raw material to finished products to the customers, and five *supporting activities* that support the primary activities and overall operations of the business.

7.2.1. Primary Activities

PRODUCTION: The production process transforms raw materials to final products. Cement plants are strategically located near the source of raw materials primarily to eliminate the cost of transporting these materials and the need to manage inbound logistics. The quality of the raw materials (primarily limestone) and plant equipment that includes leading-edge technology are key attributes to manufacturing higher grade cement. This has resulted in a low labor-intensive operations in the cement plants. Production planning and control is the key factor that enables cement plants to ramp up their capacity quickly to meet demand surges.

DISTRIBUTION: Finished products must be delivered to customers in the condition specified in the purchase agreement. Transportation cost is a significant factor in the overall purchase cost, and on-time delivery is a key indicator of customer satisfaction. This requires great skill in running an efficient process that minimizes cost through planning operational capacity and transportation conditions as specified by specific customer needs, vehicle selection, and administration of delivery. Efficient use of back-haul operations also reduces the overall costs of distribution.

FINANCING, MARKETING AND SALES: Since cement is primarily a commodity, most of the company's differentiation from its competitors is established through supplemental services which add to the level of customer satisfaction. The availability of financing is one of these services, which in turn requires Diamante to control and manage finance operation risk through better risk analysis, collateral management, administration of receivables, and funding strategies.

Marketing and Sales has primary responsibility for integrating products and services in order to offer better solutions to customers' needs, helping them to get their projects to the "grey" stage in the quickest possible timeframe. This reduction in cycle time is a critical factor in the profitability of customer projects.

CUSTOMER SERVICE: This represents Diamante's continued commitment to support its customers beyond the delivery of products. Processes are established that support customer claims, training and promotion, technical consulting about the use and specifications of products, and follow-up on all customer requests, expectations, and feedback. These processes and interfaces with the customer also result in a clearer understanding of each customer's business.

7.2.2. Support Activities

RESEARCH AND DEVELOPMENT: R&D focuses on applying scientific methods to improve product quality and develop new products and

substitutes for traditional raw materials. The main competitive advantage is that R&D contributes to making Diamante the low-cost provider in the cement business, and the continual R&D effort to reduce cost and cycle time of production is crucial. Diamante's strength in using the latest technology in R&D to develop better products at lower cost is a key differentiator. All the company's R&D activities are supported by a state-of-the-art laboratory that is second to none in the industry.

HUMAN RESOURCES: It is dangerous to underestimate the complexity of the processes needed to support a cement operation. Diamante places a high priority on upgrading the skills of its employees and retain them through a rigorous selection and hiring process, extensive training programs, competitive compensation, benefits and contributions to social work in the communities in which the company operates.

ADMINISTRATION AND FINANCE: The company's business operations could not function without the support of the legal and financial functions. Processes are needed to manage assets and liabilities, cash management, accounting and budgeting, insurance, general legal services and purchasing.

INFORMATION TECHNOLOGY (IT): The effectiveness and productivity of the company depends heavily on its ability to provide information to employees to aid in decision making as well as a framework to

communicate those decisions that affect every aspect of business operations and customer needs. Continuous investment in tools and technical support in IT is needed to leverage the company's competitive position.

BUSINESS PLANNING: The business planning process includes strategic planning, project identification, and definition of Diamante's business policies. These processes ensure the survival, profitability and continuous growth of the company and its employees.

7.3. Organizational Structure

Diamante's business is characterized by the wide geographic dispersion of its cement manufacturing plants so that they will be in close proximity to the needed raw materials and so its concrete plants will be close to the company's customers. The low value-to-transport cost ratio and the need for on-site delivery are key considerations for the organizational structure. Exhibit 24 outlines the relationships of the subsidiary companies that support the overall strategy of the company.

7.4. COMPETITIVE ASSESSMENT AND KEY SUCCESS FACTORS

The competitive assessment and key success factors are derived from an analysis of the environmental scan, the competitive position of the company, the central competitive skills established from the value chain, and the strengths and weaknesses of the company.

The competitive assessment is done based on a key competitor, Sindicato Antioqueno. Details of the assessment are shown in Exhibit 25. Exhibit 26 shows a summary of the overall competitive assessment of key success factors.

7.5. STRENGTHS AND WEAKNESSES

Through a rigorous process of competitive assessment, customer feedback, and an analysis of past performance, the following strengths and weaknesses were identified by Diamante's management team:

WEAKNESSES

- Disjointed administrative and commercial processes
- Lack of shared vision across subsidiaries and the workforce
- Weak information management across the company
- Poor definition of internal customers
- Lack of commercial focus in key areas of the business

- **Evaluation and compensation systems did not produced desired level of performance**
- **Inability to maintain fixed costs at the targeted level**
- **Lack of teamwork**
- **Lack of interaction among employees in the primary processes.**

STRENGTHS

- **The transportation and finance companies provide a differentiating competitive advantage**
- **High technology in production is a competitive advantage**
- **Employees know the business and industry well**
- **Good positioning of products in the markets**
- **Accessibility to high-quality raw materials**
- **Strong capital structure and financial resources**
- **Strategic locations of cement plants**
- **Ability to ramp up production on short notice.**

CHAPTER EIGHT

FORMULATING A BUSINESS STRATEGY

8.1. DIAMANTE'S POSITION IN THE INDUSTRY ATTRACTIVENESS/BUSINESS-STRENGTH MATRIX

Using the data derived from our analysis of the Five Forces Model, the cement industry in Colombia (and The Americas) can be categorized as **Moderately Attractive**, for these reasons:

- **New entrants are entering the market but there are significant barriers to successful entry.**
- **The total initial cost (including access to distributors, establishment of a known brand name, and access to raw materials and manufacturing equipment) is significant although not huge. Therefore the threat from new entrants is moderate.**
- **The power of customers is rated as moderate also. There are many small customers for this product and few large customers. The cost of these products — cement and concrete — is a small percentage of the total cost of a customer's project. However, customers will continue to push for lower prices since there are competitors in this industry.**

- **The low threat of substitutes and the power of suppliers both make this an attractive industry. Suppliers to the cement and concrete business do not have much power over the producing companies. Grupo Diamante acquires its own raw materials from mines and from the open market. Other inputs to the process — machinery, finances, packaging materials -- can be readily acquired.**
- **The cement and concrete industry does not represent a significant percentage of its suppliers' total business. Therefore, suppliers have little influence over the producers and the market as a whole.**
- **There are few reasonable substitutes for concrete or cement. It is possible to use a combination of steel and wood for some projects. However, for most major projects, there are no viable substitutes. Given the relatively low price of concrete and cement, many potential substitutes are financially impractical.**
- **Finally, Grupo Diamante is the market leader in Colombia but there are significant threats from other competitors in this industry. Although there are competitive differences in product quality, other factors such as physical proximity to customers, prices, and customized delivery are all factors that can win business for another firm. It is possible that any of the competitors in this industry can strive for the low-cost position or the highest value-added position. There are a number of firms in this industry, and new companies are entering this industry in**

Colombia. For these reasons, the threat from competitors is rated as high.

The combination of all five forces — competitors, availability of substitutes, power of customers, power of suppliers, and the threat of new entrants -- indicates that the cement and concrete business in Colombia is moderately attractive.

Diamante holds a strong position in the cement and concrete industry in Colombia. The firm has the lowest cost structure and an extensive network of production facilities located throughout the country. The company has access to high-quality raw materials which ensure that it will be able to produce a wide variety of high-quality cements and concrete. Diamante has the largest share of the domestic market -- 25% -- and has been gaining share over the past four years. The company has invested heavily in advanced technology that minimizes production costs and enables the easy customization of products. Diamante has a strong position in the market today and is prepared to continue increasing its strength domestically.

Diamante is a strong firm in a moderately attractive industry. As such, it should pursue strategies that allow it to maintain its strengths and attract new customers in specific segments. Diamante should identify growth segments and actively pursue them while continuing to invest in plant and equipment that will strengthen its competitive position.

Finally, the firm must focus on the needs of existing customers and maintain the level of customer satisfaction that will protect their established position.

8.2. THE STRATEGIC AGENDA

A strategic agenda is developed by taking all the elements from the environmental scan, the internal scrutiny, and the company's position in the industry attractiveness/business strength matrix, and defining a set of action plans that will enable the firm to successfully establish and maintain a superior competitive advantage.

In addition to addressing all the threats and opportunities identified through the analysis of the firm and the environment, this strategy must also begin to move Diamante from a position of offering the best product to one of providing a total customer solution.

8.2.1. Defining Specific Action Programs (Broad Strategic Thrusts)

Exhibit 27 presents fourteen broad action plans that would comprise Diamante's new strategy. These broad action programs address all the weaknesses and threats identified in the scans and leverage the strengths of the company to make it stronger in the market. This Exhibit also identifies the organizational units within the company that must work on each strategic thrust to make them successful. This "road map" will help each department make personnel and resource allocation decisions by clearly identifying the activities that are critical to the firm's strategy plan and therefore its long-term success.

This portion of the plan also contains some high-level performance measures that will be used to monitor the progress being made on each of these strategic thrusts. It should be noted that several of these strategic thrusts -- introducing new complementary products, improving logistics, increasing customer satisfaction, and increasing geographical coverage in Colombia -- all contribute directly to the company's efforts to become a provider of "total customer solutions".

8.2.2. Responsible Organizational Units and Processes

This section of the plan takes the broad strategic action plans and decomposes them into elements that make them clearer. The definitions of the strategic thrusts and some of the characteristics of each thrust are shown in Exhibits 28 and 29. This portion of the plan assigns implementation responsibility to an individual or an organizational unit. This is also the juncture at which initial milestones are established and experts begin to estimate the quantity and types of resources required to implement the specific action plans.

For Diamante, the majority of the action plans identified through the strategic planning process fall to the marketing, production, and human resources departments. Most of the strategic thrusts are focused on building the business through growth within Colombia and throughout the rest of The Americas. Several of the key strategic thrusts focus on building a stronger relationship with customers and becoming a total solution provider.

Finally, many of these strategic thrusts are aimed at improving the internal operations of the company, either through programs in specific departments or by

focusing the entire workforce on customers and the importance of operating as a team to make the firm successful.

8.2.3. A Strategic Budget

After compiling the data on resource requirements for each of the strategic thrusts, the CEO and the senior managers of Diamante will be in a position to estimate the amount of resources the company will need to commit in order to execute the strategic agenda. However, I have not developed the strategic budget for Diamante as part of this plan because I did not have access to the necessary data.

CHAPTER NINE

STRATEGIC AND ECONOMIC EVALUATION OF THE PROPOSED STRATEGY

It is important to assess whether the proposed strategy will add value to Cementos Diamante SA and its shareholders. Therefore, this chapter focuses on evaluating the strategy based on its uniqueness, durability, value created, and adaptability.

9.1. THE UNIQUENESS OF COMPETITIVE ADVANTAGE:

Using Diamante's value chain as a driver, I have assessed the company's unique competitive advantages, analyzed for each of its main processes, which the new strategy will give to the firm.

9.1.1. Administration and Finance

Diamante would be the first company in the industry to have a flexible organization structure that is segmented by the market's industries, is totally focused on the customer and, with its support capability, can implement a future aggressive growth program. With its new structure supported by strong IT capabilities, an

adequate evaluation and reward system, training programs, a teamwork environment with more empowerment at the lower levels, and a clear set of rules to regulate internal transactions, Diamante will be ahead of its competitors in terms of flexibility and reaction capacity when confronted with future opportunities.

9.1.2. Production

Diamante will have more installed capacity than its competitors which will help it to absorb future market growth caused by heavy government investment. With an established leading edge in technical capability, the company has the lowest production costs in the industry for all the products manufactured.

9.1.3. Marketing, Commercialization, Financing, Sales, and Customer Service

Diamante will be the fastest growing firm and therefore it can triple its market share in five years. This growth pace is unlikely to be duplicated by any other competitor in the short run. With the development and implementation of its Total Customer Solution, Diamante will have the strongest unique competitive advantage over the market, and customers will see the company as their best option for increasing their own growth. The company will have a wider array of alternatives to offer than any other competitor. It will also rate highest in customer satisfaction in the industry which will further strengthen its competitive position. Therefore, Diamante will be the first company in the industry focused on improving the customers' economics.

As a part of the Total Customer Solution, Diamante has the ability to offer the lowest financing costs in the industry, not only for its products but also for the other construction needs, which no other competitor has.

9.1.4. Research and Development

The company has leading-edge technology capabilities far greater than its competitors which enables it to be the leader in product improvement, new product developments, and new uses of those product, which gives Diamante new market possibilities which the competitors have not yet even thought of.

9.1.5. Human Resources

Diamante will have the most favorable labor environment in the industry because the union will be weakened by an adequate reward system, company-sponsored training, increased teamwork skills, and a unification of the vision and mission of their efforts. By improving the selection, training, and evaluation processes, the company will be assured of having the best people in the industry in all areas.

9.1.6. Logistics and Distribution

Through the organizational transformation and empowerment of its employees, as well as the proposed IT capabilities, Diamante will have the lowest transportation costs in the industry which will enable it to cover a wider geographic market area than its competitors.

9.1.7. Information Technology

The improvements suggested in this area are the support and enabling of the overall strategy of the firm. Therefore, Diamante will have the best communication network, including customers, suppliers, factories, direct sales locations, and its headquarters. It also will have the most flexible and complete information system that will connect all the information from the customer, reaching across all company levels, to headquarters. This capability will give Diamante the most advanced system, thus further lengthening its competitive position.

9.2. THE DURABILITY OF COMPETITIVE ADVANTAGE

The duration of Diamante's competitive advantage as proposed here is analyzed from the perspectives of the commitment involved, scarcity and appropriability.

9.2.1. Commitment

In the last two years Diamante has committed 100% and 85% of its net income to make the required investments to grow its production facilities and transform its commercial structure. This is strong evidence of commitment to the shareholders. Now, the company will keep 35% of the net income as a permanent resource for strategic transformation process which will lead the company toward greater market share and strengthen its distinctive competitive position.

9.2.2. Scarcity

It would be difficult for competitors to achieve a satisfactory combination of production, financing, transportation, and direct commercialization systems for a Total Customer Solution positioning as proposed here. However, these elements are not scarce for competitors, and their availability will improve over time in these areas. Nevertheless, the time line required to achieve these capabilities and catch up with Diamante in this new strategy, is long -- or "scarce"-- and therefore this strategy of being the first mover is sustainable. Such sustainable advantage is represented by the LEARNING that the company acquires during the strategy implementation process and with the achievement of the targeted market share increment. This learning advantage will give Diamante not only a minimum of five years to develop and implement strategies, but also it will also provide the required experience to enable Diamante to continue improving its performance over time -- even will competitors are just beginning.

While the company is acquiring new customers and gaining market share, it is learning how to improve the quality of its products and services, and thereby increase customer satisfaction. At the same time, the company will learn from its customers, so it can further improve the results for both and gain more market share -- building a positive learning cycle each time.

On the other hand, competitors will also be working to improve their product and service quality and to offer similar packages of products and services to avoid losing market share. However, the switching costs for customers will be an estimated 18.3% or more (as calculated in Exhibit 38) if a customer wanted to switch

to another competitor. This switching cost will play an important role against competitors and in favor of the customer lock-in that Diamante needs.

The logic behind this concept is simple: because this is a commodity business, unless a company has the required expertise to achieve customer lock-in, price management will become the desperate "tool" that some competitors will use to recover their lost market share. If competitors reduce their prices, say by 18%, Diamante would be able to do the same because of its cutting-edge production technology, and would still have the advantage of the 18.3% switching cost for customers.

As can be seen, the fact of being involved in a commodity business -- far from being a disadvantage -- is an advantage for Diamante. The reason is that while it is difficult to make changes to the product itself, companies can create important competitive advantages from the customer lock-in point of view.

Over time, learning helps customer satisfaction improve. Therefore, when a new supplier offers a similar product for the first time, the customer will detect any are immediately. They would not be interested in helping the new supplier improve their offer because it is expensive and painful to pass through that process again, especially when the customer already has a vendor that is working well.

Finally, if customers need something new, or if they have any other requirements, they will first tell Diamante, because the company is their "partner". Owing to the fact that the customer and Diamante have a strong and long-term relationship, the customer will trust Diamante, and they know that Diamante is committed to improving the customer's economics. Because of this close, trust-

based relationship with its customers, Diamante will be able to respond earlier than its competitors to market changes, and will therefore always be ahead in the customer satisfaction arena.

9.2.3. Appropriability

The threat of slowdown that could be generated by internal company forces is very low. Currently, the union is successfully dominated by company management, and the new organizational transformation and new evaluation and reward system should only lead to further stability of the company in this matter.

The threat of holding up supplies that comes from outside factors is very low or nonexistent for Diamante's strategy. Currently, there is no other influential established organizations that could interfere between the company and the market or that could gain market share from constructors or retailers. However, there is what we call *Camara de la Construccion*, whose current function is to gain political influence over Colombia's Congress in order to control national regulations in this industry. It is possible that in the future builders will try to use this kind of organization to gain advantages over suppliers, but Diamante will be ready for that because the company is already part of this organization. Therefore, I believe that the time window needed to develop such a proposed strategy would permit the company to achieve its projections and objectives simply because there is no specific force that would work against the firm in this regard.

9.3. VALUE CREATED BY THE PROPOSED STRATEGY

Exhibits 30 and 31 show two financial scenarios: one without the implementation of this proposed strategy, and the other showing the results achieved by implementing this proposed strategy. Comparing those two Exhibits, it is clear that the strategy adds approximately 30% more to the value of the company that will undoubtedly result in better value-added to the stockholders.

There are several assumptions made for this evaluation. They are:

- (1) The most important result that would be achieved by the strategy, in a worst-case scenario, is an increase in market share from the current 25% to 35%. It is clear that if the company could achieve a 10% increase by improving only production capacity and its commercial approach, then it would be able to achieve at least a 10% improvement by implementing this integral and cohesive general strategy which includes all the primary and support areas of the company in addition to its organizational transformation.
- (2) A more positive scenario (achieving 40% of market share) will certainly generate better results, and it is considered that it is not necessary to include such projections here to know that the value added will be greater.
- (3) The rest of the projection elements will remain in the same proportion of revenues because even though the strategy will improve cost reductions, the implementation of the Total Customer Solution concept will increase expenditures that will set up the reductions. The discount rate used in the

calculation of the Net Present Value is 24% which includes inflation and exchange rate effects of the Colombian economy.

- (4) From the point of view of the customer's economic improvement, in Exhibit 38 and Chapter 3.3.4, the reader can see the complete consideration of the value added created by this strategy for the customer.

9.4. ADAPTABILITY OF THE PROPOSED STRATEGY

This strategy gives Diamante the flexibility needed to face new challenges, including its competitors' reactions. For just that reason, the new competitive positioning toward a Total Customer Solution will keep Diamante updated about trends, behaviors, needs, and other changes that happen in the marketplace, and the company will be able to react quickly due to its organizational transformation, its new perspective toward its clients and the company's closeness to the customers' position which no other competitor has.

CHAPTER TEN

APPLYING THE ADAPTIVE MANAGEMENT FRAMEWORK

Once the new distinctive strategic position and the new strategic agenda for Cementos Diamante SA have been defined, which will enable it to face future challenges, it is important to give a general overview of the way the firm could link its new strategy with its execution. This concept is important because it balances the fundamental processes of the firm that create a unique competitive position for Diamante.

In order to guarantee the successful execution of the strategy and the results that the company needs to survive and continue growing, I would urge that Diamante implement the three adaptive processes described in the **Adaptive Management Framework** developed by Hax and Wilde. I suggest this framework because the concept permits the successful blending of the strategic conceptualization into Diamante's present reality; this ensures that the company's processes and its business plans will be aligned with the proposed strategy.

The Hax/Wilde framework also provides a design for the most important measures that top management and the whole organization should consider in order to ensure that the company's performance will be according to the strategy.

10.1. DESCRIPTION OF THE ADAPTIVE PROCESSES

According to the Hax/Wilde framework, there are three adaptive processes that the company should implement:

- **Operational Effectiveness,**
- **Customer Targeting, and**
- **Innovation.**

These processes cross the whole spectrum of an organization's processes in the value chain in order to integrate and coordinate their own objectives. Some of them are a top priority as we mention them in each adaptive process, and others have a supporting role in them. Each explanation discusses not only how the company's current value chain processes should adapt to the new strategy, but also how each new strategic thrust can be spread out in more detailed steps than those functional areas that are shown in Exhibit, based on the designed responsibility which assures the success of their implementation.

10.1.1. Operational Effectiveness

Knowing that the objective of this process is the delivery of products and services to the customer, and also that its primary focus is on producing the most effective cost and asset infrastructure to support the company's strategic position, the following processes in Diamante's value chain should have a high level of compromise in order to obtain the best customer benefits: Production, Logistic of

Distribution, Administration and Finance, Human resources, and Information Technology.

According to the above-mentioned framework, these processes should improve the customer's economic drivers, and improve the horizontal linkages between the components of the total solutions described above. In Exhibit 28, we can see that these processes have as a top priority the following strategic thrusts under the achievement of the best customer's benefits, and also the supporting role that each one has in reference to the other areas.

PRODUCTION AND LOGISTICS OF DISTRIBUTION: Increase production capacity, reduce production costs, optimize process control, introduce new complimentary products, and increase the geographical coverage.

ADMINISTRATION, PROCUREMENT AND FINANCE: Reduce production costs, reduce transportation costs, implement new information systems, and develop the transitional organization transformation.

HUMAN RESOURCES: Increase production capacity (training), increase commitment to high-quality employees, achieve a customer-oriented culture, and develop a transitional organization (transformation).

INFORMATION TECHNOLOGY: Implement new information systems, and improve logistics.

The new strategic thrusts that correspond to this adaptive process, with some examples of their further implementation steps, are:

- **Increase cost competitiveness to domestic and foreign markets. To improve the customers' economic drivers in this matter, Diamante should:**
 - 1) Achieve the world's standard costs,**
 - 2) Put strong effort into R&D to achieve better products with less cost,**
 - 3) Carefully study customer construction logistics, and**
 - 4) Coordinate all areas and sections of the company in order to reduce waste in the delivery process.**

- **Reduce transportation costs and eliminate back-haul costs for the customer. To improve customer economics in this matter, the company should**
 - 1) Look for new products to be transported along the same routes and cycles.**
 - 2) Keep the transportation equipment in excellent operational condition.**
 - 3) Hire the best, most knowledgeable people in the transportation business,**
 - 4) Find better routes to reach customers,**
 - 5) Train the conductors and assure they will have necessary time for relaxation, and**
 - 6) Negotiate new load insurance with insurance companies for third party loads.**

- **Optimize process control systems: implement expert systems.** To improve customer economics in this matter, the company should:
 - 1) **Design a programming and delivery system for the concrete plants including the mixing process.** This production process works based on orders from the customer, and orders must arrive with the right quantity and quality, and three hours after the order is placed. This system will select the plant to produce the product, the mixer to be used, the driver, the recipe, and the route to follow in order to get the finished product to the customer on time.

10.1.2. Customer Targeting

The objective of this process is to attract, satisfy, and retain customers. According to the framework, its primary concern is to identify attractive customers for the company and enhance customer performance. Here, the processes should:

- identify and exploit opportunities that add value to key customers by bundling customized solutions (for example, the packages of products and services mentioned above for constructors),
- increase customer value and possible alliances in bundled solutions (for example, the proposed bundle of financing, products, transportation, and new complimentary products for builders and producers). These can also be done through alliances and close collaboration with those clients.

- **The management of the channel ownership option (for example, the current CIMs (Integrated Marketing Centers)).**

The ultimate goal is to improve the customer's economics even if it sometimes raises the product's cost.

The following processes in Diamante's value chain should have a high level of compromise to seek the target customer bundles that best fit the customers' needs and Diamante's objectives (also see Exhibit 28):

MARKETING, COMMERCIALIZATION, FINANCING, SELLING, AND

CUSTOMER SERVICE: Increase market share in Colombia, penetrate international markets, increase customer satisfaction and total customer solution, achieve a customer-oriented culture, reduce transportation costs, implement new information systems, introduce new complimentary products and bundles, increase geographic coverage, and detect, design and implement a way to retain the best clients for the company.

In Exhibit 9, we can see the targeted segments of customers that we have already determined in previous sections of this thesis. These processes determine the best customers to target within the segments to achieve the best results for the company.

The new strategic thrusts that correspond to this adaptive process, with some examples of their further implementation steps, are:

- **Increase market share in Colombia over 35%. In order to improve it, the company should**
 - 1) **Eliminate mixing at the customer's location and bundle the products into a new product that is pre-manufactured concrete,**
 - 2) **Eliminate mortar mixing in place by offering a bundled product of components that can be quickly applied to walls, roofs, and floors, at a lower price than each component separately, and**
 - 3) **Look for alliances with construction forms producers to develop a new product form at lower prices.**

- **Increase commitment to high-quality employees. In order to achieve this, the company should:**
 - 1 **Make alliances with the universities to develop joint programs for company customers and company employees.**
 - 2) **Make the employees and customers peers in quality performance training, and**
 - 3) **Design an appropriate compensation system for people based primarily on customer satisfaction.**

- **Increase customer satisfaction and the Total Customer Solution. In order to implement this, the company should:**
 - 1) **Implement the suggested bundle of products and services stated in Exhibit 38,**
 - 2) **Increase the number of CIMs in each city and region of the country where there are construction activities, and**

- 3) **Make alliances with producers of complementary products in order to make new bundles of products with better benefits for the customers (in addition to lower prices).**
- **Achieve a Customer-Oriented Culture.** In order to accomplish this thrust, the company should:
 - 1) **Design and implement a new compensation system oriented to achieving improvements in customer economics,**
 - 2) **Design joint training sessions with the customers for all areas of the organization using recognized teachers, and**
 - 3) **Implement the "pyramid of the customer relationship" where each level and function of the company must have a close relation with each level and function of the customers that intervene in the whole business process with them (from planning to delivery), in order to match perfectly both structures' responsibilities and have all the possible requirements covered.**
 - **Design, implement, and improve the logistics packages to support the Total Customer Solution.** In order to do that, the company should:
 - 1) **Develop the Smart Card system to track and register deliveries in both the customers' and the company's inventory systems,**
 - 2) **Develop the required software to manage customer information about the order, delivery, billing, financing, payment, and balance connected to each customer's system, by using Internet, for**

example, as an additional logistic service bundle package to the product itself, and

- 3) Develop a direct collocation network system that would enable the company to put concrete and mortar in place of construction forms, to avoiding handling by the customer.

10.1.3. Innovation

According to the framework, this process uses all the resources available in the firm to develop an innovative infrastructure. It also assures a continuous stream of new products and services to maintain future viability of the business. Based on this line of thinking, the marketing, production, R&D, human resources, procurement and administration, and information technology processes have to be aligned with the new strategy in order to perform Customer Service Innovation tasks, such as:

- (1) identifying and exploiting joint development linked to the customer value chain;
- (2) expanding the offers into the customer's value chain in order to improve its economics,
- (3) integrating and innovating customer care functions,
- (4) increasing customer lock-in through customization and learning.

For example, they have to: improve logistics, create new complementary products and services, and design new packages and bundling offers. Among them, we can mention as an example the supply of special equipment that measures the

hardness and strength of accelerated concrete using cutting-edge technology that enables the builder to continue construction without waiting fourteen days between construction steps.

The new strategic thrusts that correspond to this adaptive process with some examples of their further implementation steps are:

- **Implement new information systems to support the new strategic position. In order to accomplish this, the company should**
 - 1) **develop a joint information system linkage with customers that enables the company to customize each of its orders during the whole process (from the planning step to the delivery and post-sales service). This system should eliminate a lot of customer logistics and ordering costs in labor and transaction registration process, and**
 - 2) **Develop a quality control information system that links the lab test results of the production plant with the customer construction process, thereby enabling both the company and the client to know on-line which product was used in which part of the process. This should enable both firms to quickly react when there is a trouble in the melted component.**
- **Introduce new complementary products to support the Total Customer Solution position. In implement that, the company should:**

- 1) Set up joint teams with the customers to work on developing of new technologies and products that could be used in construction with better performance and lower cost,
- 2) Establish a continuous technology up-grade program with the international builders' associations and construction systems producers in order to be always at the cutting edge of the technology that would enable the company to offer the best solutions to its clients, and
- 3) Increase the investment in R&D in order to develop new complementary products for the "grey" part of construction based on cement as their principal component. These new products would lower construction costs and also shorten the construction cycle time.

10.2. PRIORITIZING THE ADAPTIVE PROCESSES

As we could see in the first part of the thesis, the selected strategic position for this company is **TOTAL CUSTOMER SOLUTION**. According to this position, the following is the prioritization of the adaptive processes in order to improve the customers' economics:

- 1) Customer Targeting,
- 2) Operational effectiveness, and
- 3) Innovation.

This prioritization also means that the accompanying strategic thrusts of the strategic agenda listed in each adaptive process will follow the same order of implementation and source allocation. By doing this, Diamante is aligning its resources and infrastructure to the new strategy.

10.3. THE FEEDBACK MECHANISM OF THE ADAPTIVE PROCESSES

When the Diamante Group implements the new strategy supported by the adaptive processes, it is important to have feedback about the results of the new strategy. The reason for this is that Diamante can then modify or confirm the new concepts that they are putting in place. Once the new strategy is designed, such as in this thesis, the company can begin making variations to the current strategies and processes according to the new **Total Customer Solution** concept.

To do that, Diamante could choose a representative sample of good customers (for example, among builders and producers), and then offer them the new packages of products and alliances that Diamante believes would improve their economics. Thereafter, Diamante could collect the customers' responses to the new features and then act accordingly.

With the customer information and the study of the profitability of those customers for the company, it can select the final offers that the company would launch to all the segments where they are applicable. Exhibit 32 shows this feedback cycle with an example that will help the company to choose the right strategic offers and concepts.

It is important to emphasize that the role of information technology in this process is critical, especially when the company wants to follow closely and in great detail the behavior of each customer. In Exhibit 28 we can also see the performance measures for each strategic thrust that will enable Diamante management to be sure that the strategy is working and implemented well.

CHAPTER ELEVEN

PERFORMANCE OBJECTIVES AND MEASURES

In order to control the performance of the company and its new strategy, it is very important to define the performance objectives and their measures that the management will follow to lead the company. By doing this, all the organizational levels of the company will be clear about the targets that has to be reached by each process and people involved in them and how they will be evaluated.

In Exhibit 33, there is a general list of the most important performance objectives for each perspective: the Financial perspective, the Customer perspective, the Operational perspective, and the Innovation perspective. These objectives were defined to be managed at the top level of the organization and they should be spread in cascade through all the organizational levels until reach the bottom of it.

It is important to say that all of these objectives and measures above defined are consistent with the strategic agenda that is shown in the exhibit No. 28 and with the adaptive management feedback measures shown in the same exhibit.

The comparison between the objectives and their measures of the business reality will result in the Balance Score Card that the company should implement in order to control the performance and to determine the different reward systems that best fit the selected strategy.

11.1. FINANCIAL PERSPECTIVE

In Exhibit 34, the reader can find the objectives and their measures for this perspective that Diamante should implement in order to control the financial performance of the organization.

11.2. CUSTOMER PERSPECTIVE

In Exhibit 35, the reader can find the objectives and their measures for this perspective that Diamante should implement in order to control the Customer Service performance of the organization.

11.3. OPERATIONAL PERSPECTIVE

In Exhibit 36, the reader can find the objectives and their measures for this perspective that Diamante should implement in order to control the Operational performance of the organization.

11.4. INNOVATION PERSPECTIVE

In Exhibit 37, the reader can find the objectives and their measures for this perspective that Diamante should implement in order to control the Innovation performance of the organization.

CHAPTER TWELVE

NEXT STEPS: STRATEGIC BUDGET AND EVALUATION

Due to the fact that the information necessary to establish a strategic budget and its evaluation is not available at this time, it is my suggestion that Cementos Diamante SA should take these steps before implementing the strategy.

Information about the current and future costs of resources (human, assets, and investments) required to implement the suggested strategy are not available to complete this framework due to significant organizational changes caused by the recent acquisition of the company.

However, it is important to say that it should follow the suggested framework in this document to perform these tasks.

CHAPTER THIRTEEN

CONCLUSION

Competition in the Colombian cement market has become increasingly bitter in recent years due to the shift from being a demand market to a supply market. The economic opening process that Colombia is currently undergoing also constitutes a crucial and unavoidable threat for domestic firms like Cementos Diamante S.A. These threats will dramatically change market conditions in the near future.

Therefore, Diamante must seriously consider applying this proposed overall strategy which will enable it to face the challenges of moving from success as a local player to becoming a strong international competitive enterprise in this industry.

This thesis focused on designing a revolutionary new competitive position and strategy for Cementos Diamante S.A. in its industrial environment according to the coming threatening conditions and using the strategic frameworks learned during the author's year at the Sloan Fellows program.

As was mentioned at the beginning of this thesis, the current increasing competitiveness of the cement industry in Colombia, the changes that the market has suffered with the changes in supply and demand, and the possibility of new international entrants into the market, have created an urgent need for Diamante to reformulate its strategy.

This thesis strongly suggests that the company must move from its current "Best Product" strategic position toward the "Total Customer Solution" strategic position where, for example, it can implement many significant improvements in delivery, information systems, and product assortment that will deeply impact customer economics. This change implies that the company will transform itself to a Total Customer-Oriented organization which will enable the firm to achieve the best and unique competitive position in the market.

In the thesis, I defined a completely new vision and mission of the business and offered a design, evaluation and suggested process of adapting a new strategic agenda that will lead Cementos Diamante SA toward future success.

According to the strategy concept and process framework followed midway through the thesis, Diamante can now count on a new strategic agenda that is congruent with the new Customer Lock-In positioning. This new strategy will lead the company to a unique competitive position that will be difficult for its competitors to imitate. This new strategy will enable the company to reach the required national market share that will support its growth into the international arena.

This statement is widely supported by the strategy evaluation sections of this document. There, according to an assumption of possible achievement of 35% of market share, I have shown a conservative increase of \$90 million in the company's market value, which adds considerable value to the shareholders' economics. This also means that by improving customers' economics, the shareholders' economics will also be improved.

The Hax/Wilde adaptive management section of this thesis shows in general terms how the company has to include the adaptive processes across the whole organization in order to ensure the success of the implementation of the new strategy and also to enable it to modify those factors that may have some differences between the management concepts and the reality of the market.

Finally, the last section of the thesis has the principal objectives and measures that the company has to put in place in order to guarantee its success in facing future challenges. They must be known by the whole organization and it is also important to let employees know clearly what their contribution will be to those objectives and how they will be measured in achieving them.

It is important to mention that the integral application of all the strategic frameworks and concepts learned during my classes -- ideas that were followed in this document -- were the key elements that led the author to this new important strategic position for a commodity product producer like Cementos Diamante S.A. Therefore, we can conclude that these frameworks really work when the company's management applies them in a rigorous way.

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EXHIBIT No. 1

CEMENTOS DIAMANTE S.A.				
Consolidated Balance Sheet 1995 / 1994				
(In Thousands)				
ASSETS	Percentages			
	1995	1994	1995	1994
Current Assets				
Cash and Equivalents	\$64,870	\$44,232	16.29%	11.11%
Accounts Receivable	\$54,808	\$33,516	13.76%	8.42%
Inventories	\$8,577	\$8,634	2.15%	2.17%
Prepaid Expenses and other Current Assets	\$4,760	\$2,983	1.20%	0.75%
Total Current Assets	<u>\$133,015</u>	<u>\$89,365</u>	33.40%	22.44%
Other Assets and Deferred Charges				
Noncurrent Investments	\$2,268	\$1,545	0.57%	0.39%
Notes Receivable due after one year	\$689	\$608	0.22%	0.15%
Total Other Assets and Deferred Charges	<u>\$3,157</u>	<u>\$2,153</u>	0.79%	0.54%
Property and Equipment				
Property and Equipment	\$137,413	\$107,133	34.51%	28.90%
Adjustments for Inflation	\$66,418	\$38,037	16.68%	9.55%
Less Accumulated Depreciation			0.00%	0.00%
Accumulated Depreciation	(\$17,643)	(\$11,527)	-4.43%	-2.89%
Adjustments for Inflation	(\$12,253)	(\$6,633)	-3.08%	-1.41%
Total Property and Equipment	<u>\$173,935</u>	<u>\$128,010</u>	43.68%	32.15%
Other Assets				
Prepaid Long term Assets	\$12,310	\$11,547	3.09%	2.90%
Other Assets	\$1,301	\$189	0.33%	0.05%
Valorizations	\$74,484	\$55,162	18.71%	13.65%
Total Other Assets	<u>\$88,095</u>	<u>\$66,898</u>	22.12%	18.80%
TOTAL ASSETS	<u>\$398,202</u>	<u>\$296,426</u>	100.00%	100.00%

EXHIBIT No. 1 (Cont.)

LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Notes Payable	\$44,268	\$31,673	11.12%	11.08%
Accounts Payable	\$9,858	\$8,472	2.48%	2.98%
Accrued Wages and Pensions	\$1,713	\$1,776	0.43%	0.62%
Other Accrued Liabilities	\$14,920	\$11,418	3.75%	3.99%
Current Maturities of long term Debt	\$23,195	\$10,783	5.82%	3.76%
Total Current Liabilities	\$93,952	\$64,122	23.59%	22.39%
Noncurrent Liabilities				
Long Term Debt	\$749	\$1,204	0.19%	0.42%
Long Term Accrued Wages and Pensions	\$9,855	\$7,193	2.47%	2.51%
Deferred Income Taxes	\$677	\$451	0.17%	0.16%
Other Noncurrent Liabilities	\$10,385	\$9,654	2.61%	3.37%
Total Noncurrent Liabilities	\$21,666	\$18,502	5.44%	6.46%
Total Liabilities	\$115,618	\$82,624	29.04%	28.85%
SHAREHOLDERS' EQUITY				
Common Stock	\$7,493	\$7,493	1.89%	2.62%
Additional Paid-in Capital	\$62,860	\$62,860	15.79%	21.95%
Retained Earnings	\$90,602	\$80,426	22.75%	21.10%
Equity Revaluation	\$47,145	\$17,661	11.84%	6.24%
Valorizations	\$74,484	\$55,162	18.71%	19.26%
Total Equity	\$282,584	\$203,802	70.96%	71.15%
TOTAL LIABILITIES AND EQUITY	\$398,202	\$286,426	100.00%	100.00%

EXHIBIT No.1 (Cont.)

<i>Grupo Diamante</i>	Percentages			
INCOME STATEMENTS	1985	1984	1985	1984
OPERATING REVENUE:				
SALES REVENUE	\$198,094	\$154,643		
TOTAL	\$198,094	\$154,643	100.00%	100.00%
OPERATING EXPENSES:				
COMPANY-OPERATED				
COST OF SALES	\$110,927	\$87,493	56.57%	50.58%
TOTAL	\$110,927	\$87,493	56.57%	50.58%
GROSS MARGIN	\$85,167	\$67,150	43.43%	43.42%
CORPORATE EXPENSES	\$43,228	\$31,161	22.04%	20.15%
ADJUSTMENTS FOR INFLATION	\$6,123	(\$4,750)	3.12%	-3.07%
OTHER INCOME (NET)	(\$3,690)	(\$1,305)	-1.86%	-0.84%
	\$45,669	\$25,105	23.22%	16.23%
EARNINGS BEFORE INTEREST AND TAX	\$39,508	\$42,045	20.15%	27.19%
INTEREST	(\$7,340)	\$2,953	-3.74%	1.91%
TAX	\$11,179	\$5,009	5.70%	3.24%
	\$3,839	\$7,962	1.96%	5.15%
NET INCOME	\$35,669	\$34,083	18.19%	22.04%
PREFERRED DIVIDENDS	\$0	\$543		
NET INCOME ATTRIBUTABLE				
TO COMMON SHAREHOLDERS	\$35,669	\$33,540		
COMMON DIVIDENDS	\$5,493	\$2,259		
ADDED TO RETAINED EARNINGS	\$30,176	\$31,281		
PER SHARE DATA:				
EARNINGS PER SHARE	\$0.32	\$0.30		
COMMON DIVIDENDS PER SHARE	\$0.05	\$0.02		

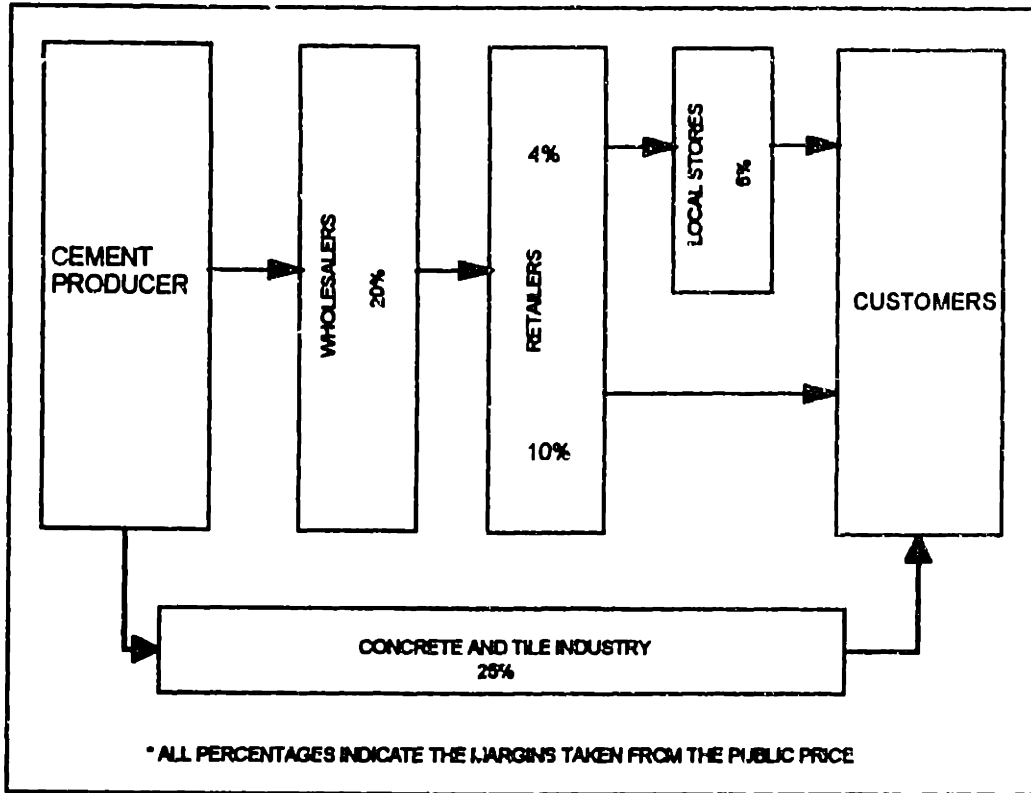
EXHIBIT No. 1 (Cont.)

STATEMENTS OF CASH FLOWS	1986	1985
OPERATING ACTIVITIES:		
NET INCOME	\$35,669	\$34,083
DEPRECIATION & AMORTIZATION	\$14,231	\$9,836
CHANGE IN WORKING CAPITAL ITEMS	(\$18,205)	(\$24,881)
CASH PROVIDED BY OPERATIONS	<u>\$31,695</u>	<u>\$19,038</u>
INVESTING ACTIVITIES:		
ADDITIONS TO PROPERTY AND EQUIPMENT (NET)	(\$29,752)	(\$33,667)
OTHER	(\$462)	(\$882)
CASH USED FOR INVESTING	<u>(\$30,214)</u>	<u>(\$34,549)</u>
CASH FLOW BEFORE DIVIDENDS AND EXTERNAL FINANCING	\$1,481	(\$15,511)
DIVIDENDS	<u>(\$4,831)</u>	<u>(\$2,351)</u>
CASH BEFORE EXTERNAL FINANCING	<u>(\$3,350)</u>	<u>(\$17,862)</u>
EXTERNAL FINANCING ACTIVITIES:		
NET BORROWING	\$23,988	(\$3,492)
PREFERRED STOCK (NET)		\$80,397
COMMON STOCK (NET)	\$0	\$0
OTHER	\$0	\$0
CASH FROM EXTERNAL FINANCING	<u>\$23,988</u>	<u>\$56,905</u>
NET CASH FLOW	<u>\$20,638</u>	<u>\$39,043</u>

EXHIBIT No. 1 (Cont.)

Financial Statements Analysis					
	<u>1995</u>	<u>1994</u>		<u>1995</u>	<u>1994</u>
Working Capital	\$39,083	\$25,243	Returns		
Liquid Assets	\$119,878	\$77,748	Operating return on assets	0.08	0.18
Monetary Assets	\$122,835	\$79,901	Return on assets (ROA)	0.06	0.14
Monetary Liabilities	\$100,898	\$71,208	Return on Equity (ROE)	0.13	0.17
Net Monetary Position	\$22,137	\$8,695	Return on Net assets (RONA)	0.07	0.16
Operating Liabilities	\$47,408	\$38,964	Cash Flow Ratios		
Debt	\$68,210	\$43,660	Debt/Operating cash flow	2.15	2.29
Capital employed	\$304,250	\$222,304	Current liab/Operat.cash flow	2.96	3.37
Net Assets	\$350,794	\$247,482	DuPont Analysis		
RATIOS:			Return on Sales	0.24	0.25
Liquidity:			Asset turnover	0.49	0.54
Current Ratio	1.42	1.39	Return on Assets (pre-tax)	0.12	0.14
Quick Ratio	1.27	1.21	Leverage	1.41	1.41
Solvency Ratios			Return on Equity (Pre-tax)	0.17	0.19
Liabilities to Equity	0.41	0.41	Effective tax rate	0.24	0.13
Non-current Liab to Equity	0.08	0.09	Return on Equity (ROE)	0.13	0.17
Debt to Equity	0.24	0.21	Other Ratios		
Debt to capital emplo	0.22	0.20	Book Value per share	2.52	1.82
Leverage(A to Equity)	1.41	1.41	Market price to Book Value	2.78	3.29
Turnover Ratios			Current Market price/share	7.00	6.00
Total Assets	0.49	0.54			
Net Assets	0.64	0.70			
Working Capital					
Cash turnover (times)	3.02	3.50			
Cash period(days)	120.75	104.40			
Receivables (times)	3.58	4.61			
Receivables (days)	102.02	79.11			
Inventory (times)	12.93	10.13			
Inventory (days)	28.22	36.02			
Payables (times)	11.25	10.33			
Payables (Days)	32.44	35.34			
Operating Liabilities Turnover	2.45	1.98			
Operating credit period (days)	149.20	186.70			
Cash generating Cycle (days)	(18.96)	(71.57)			

EXHIBIT No. 2
PART 1: CURRENT INDUSTRY STRUCTURE



PART 2: DIAMANTE'S DISTRIBUTION STRUCTURE

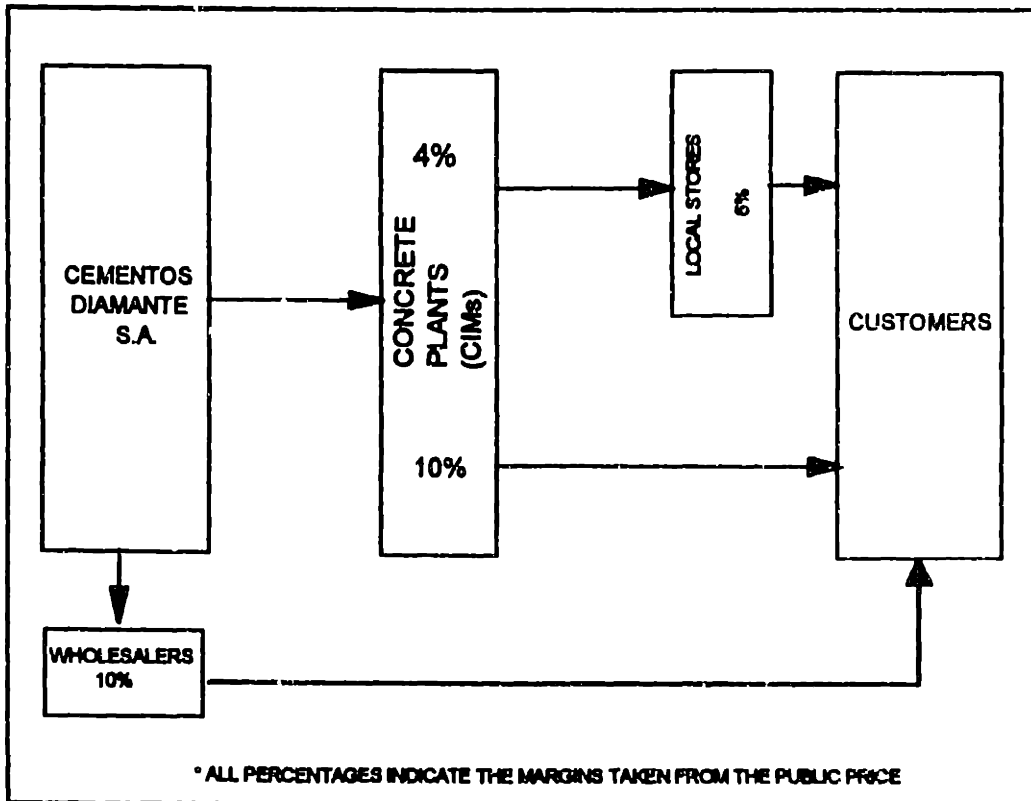


EXHIBIT No. 3

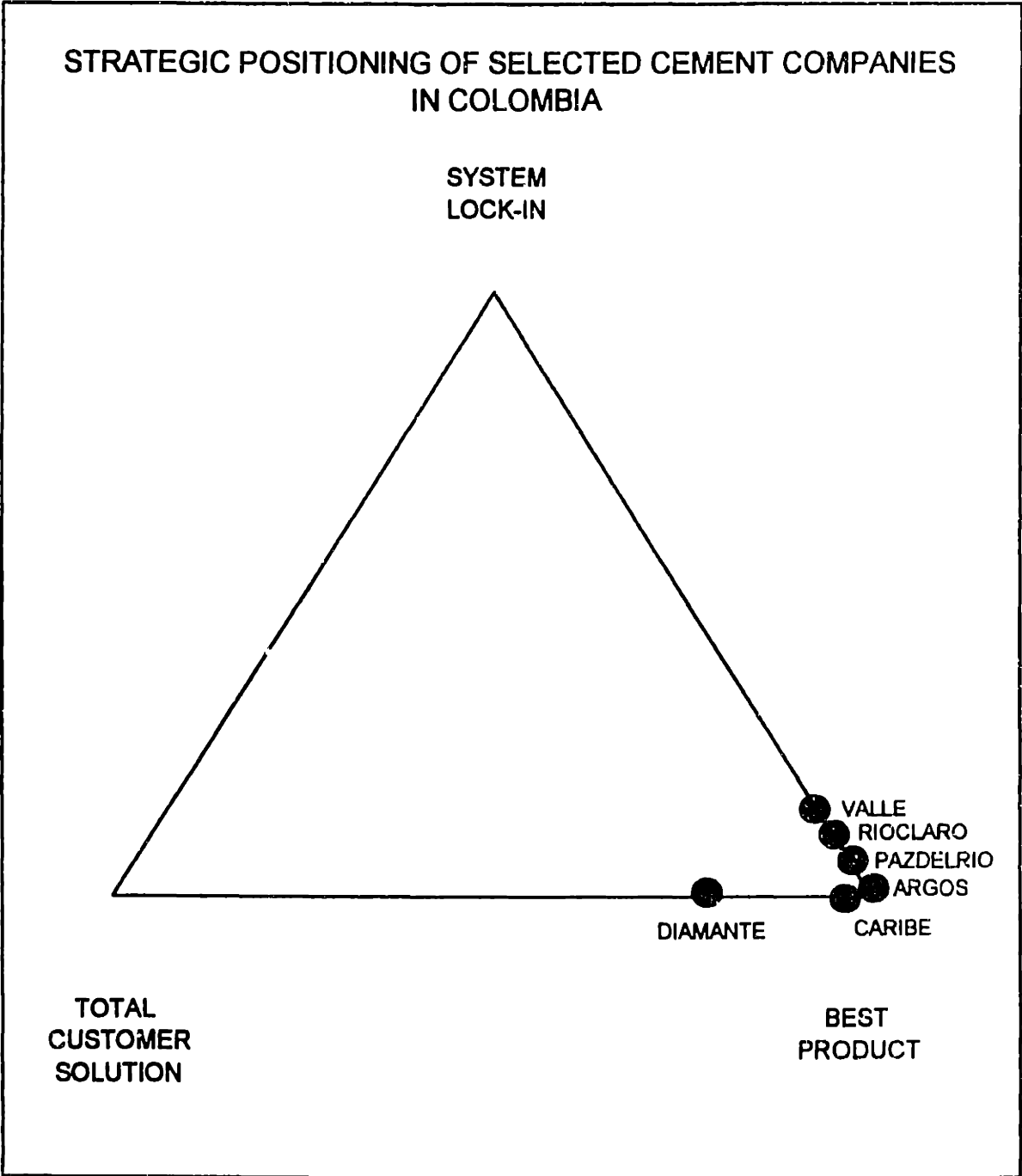
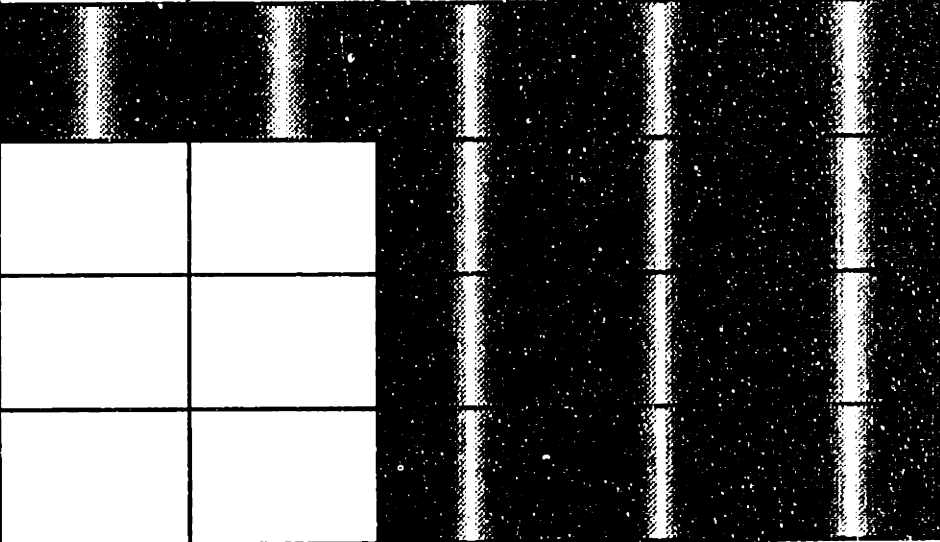


EXHIBIT No. 4

TYPE OF CUSTOMER VS. TYPE OF PRODUCT

CEMENTOS DIAMANTE S.A.	WHOLESA- LERS	RETAILERS / LOCAL STORES	CONSTRUC- TORS	INDUS- TRIALS	INFRA- STRUCTURE
CEMENT					
CONCRETE					
SAND					
GRAVEL					



PRODUCT PRESENCE

EXHIBIT No. 5

CURRENT GEOGRAPHIC SCOPE OF
CEMENTOS DIAMANTE S.A. IN
COLOMBIA

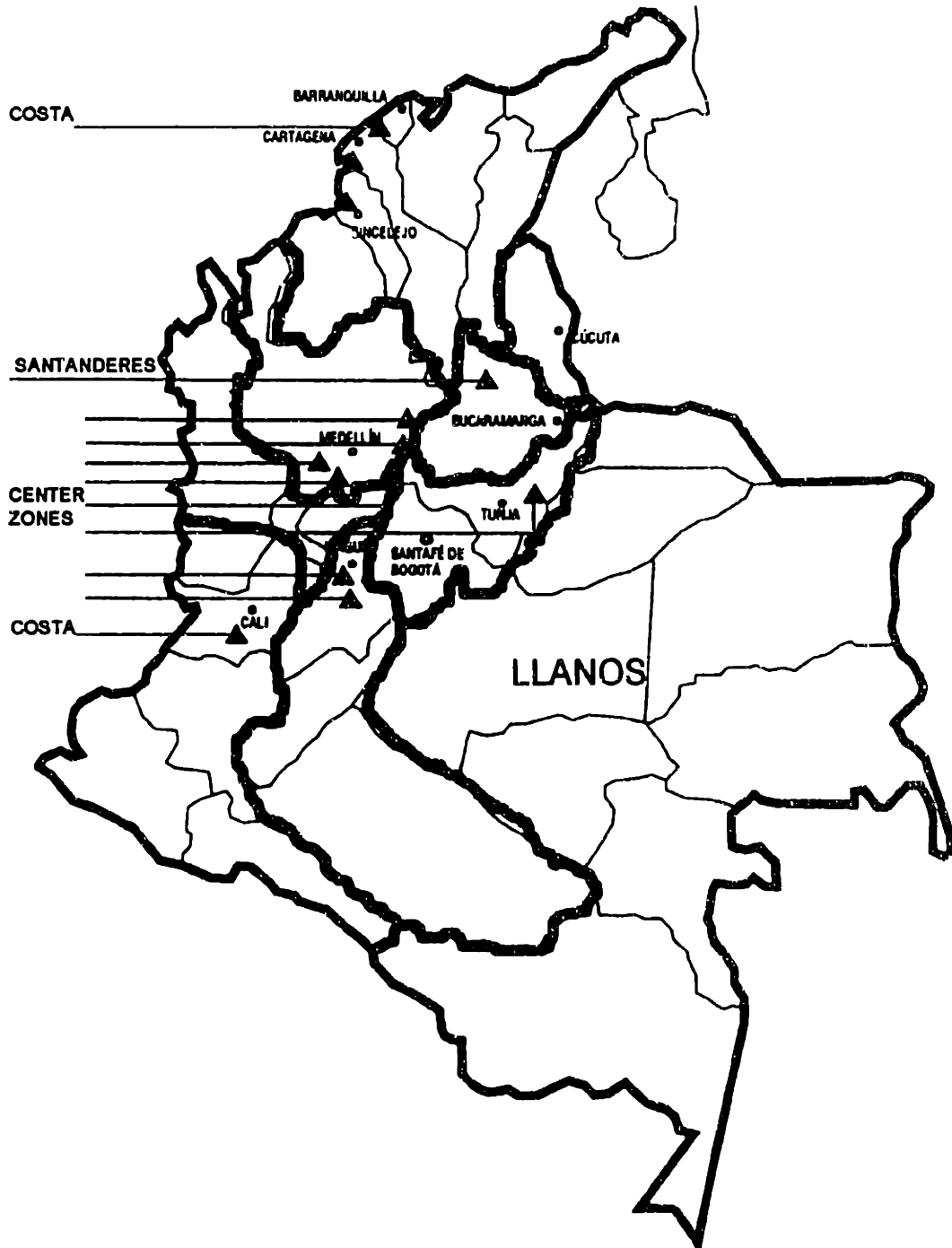
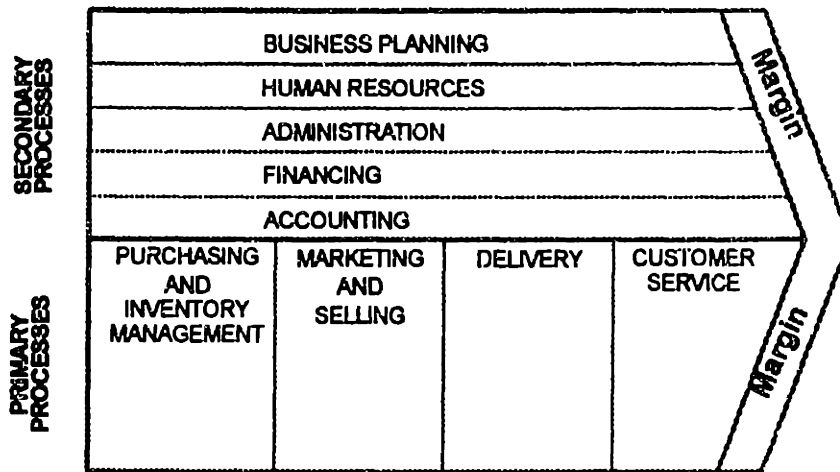
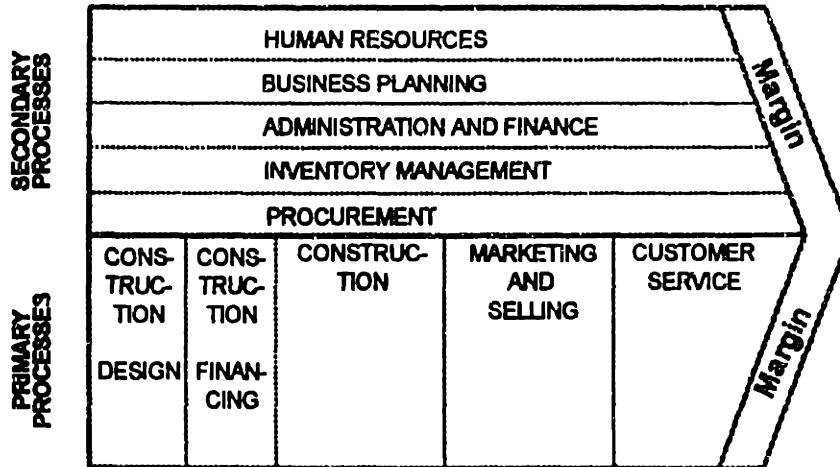


EXHIBIT No. 6
A-DISTRIBUTORS' VALUE CHAIN



B-CONSTRUCTORS' VALUE CHAIN



C-INDUSTRIALS' VALUE CHAIN

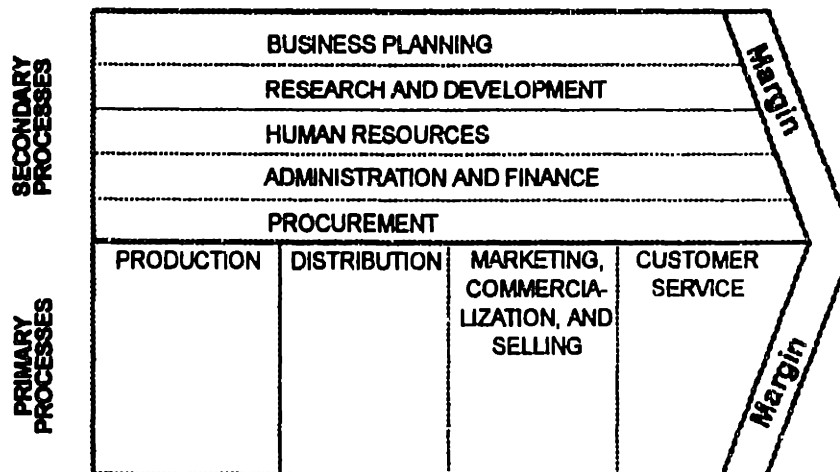


EXHIBIT No. 7
CUSTOMER SURVEY

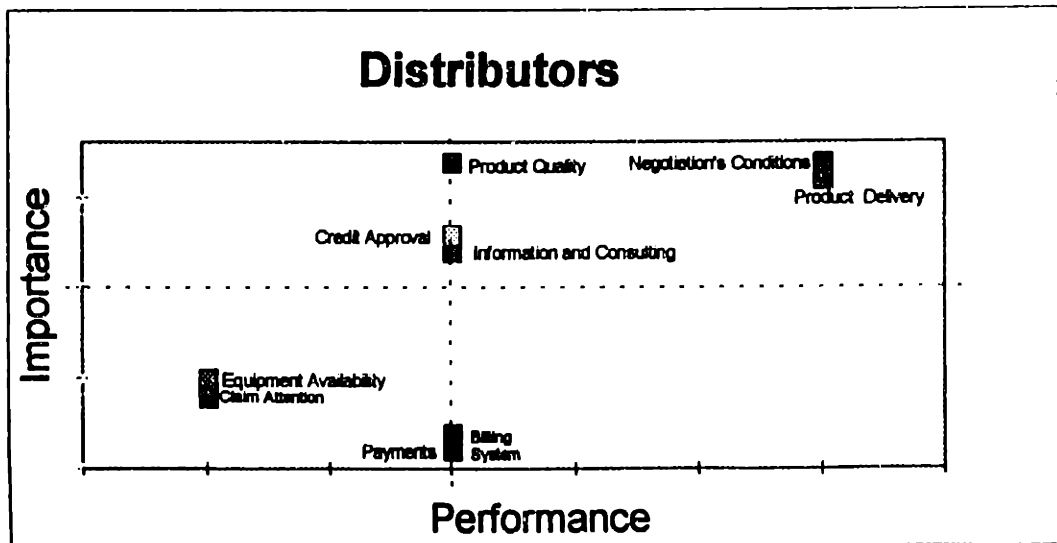
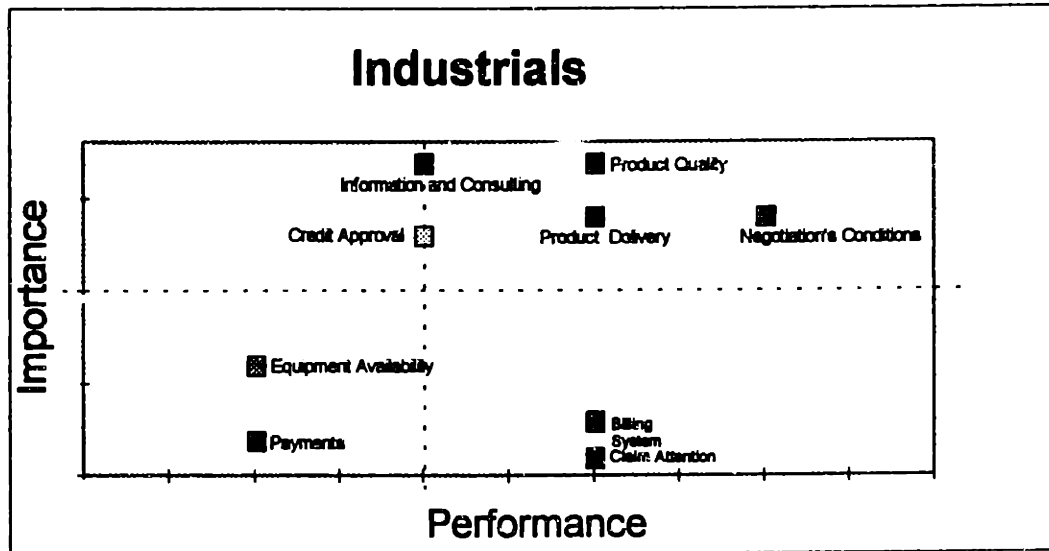
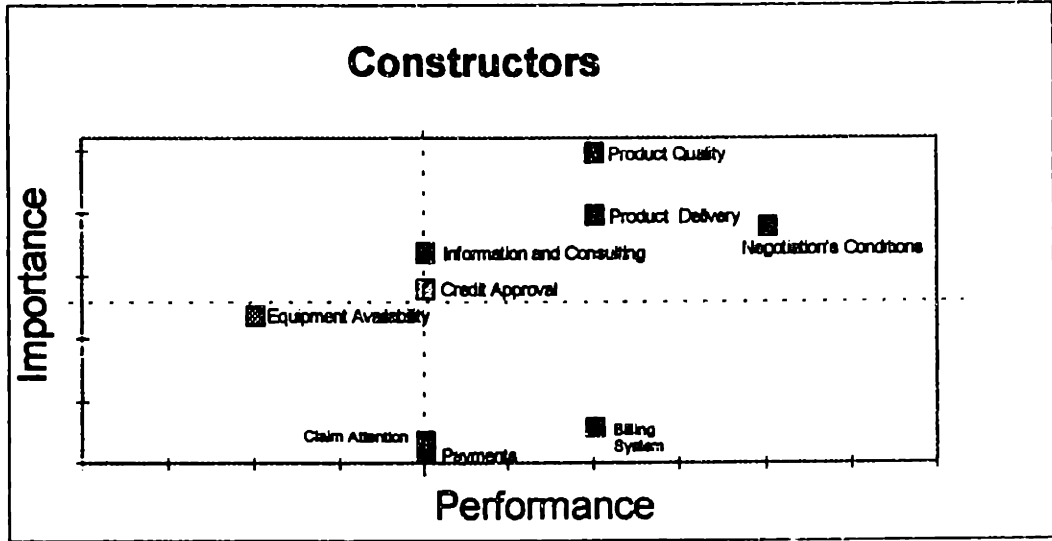


EXHIBIT No. 8

THE NEW STRATEGIC POSITIONING OF CEMENTOS DIAMANTE S.A.
COMPARED WITH THE OTHER PRODUCERS IN COLOMBIA

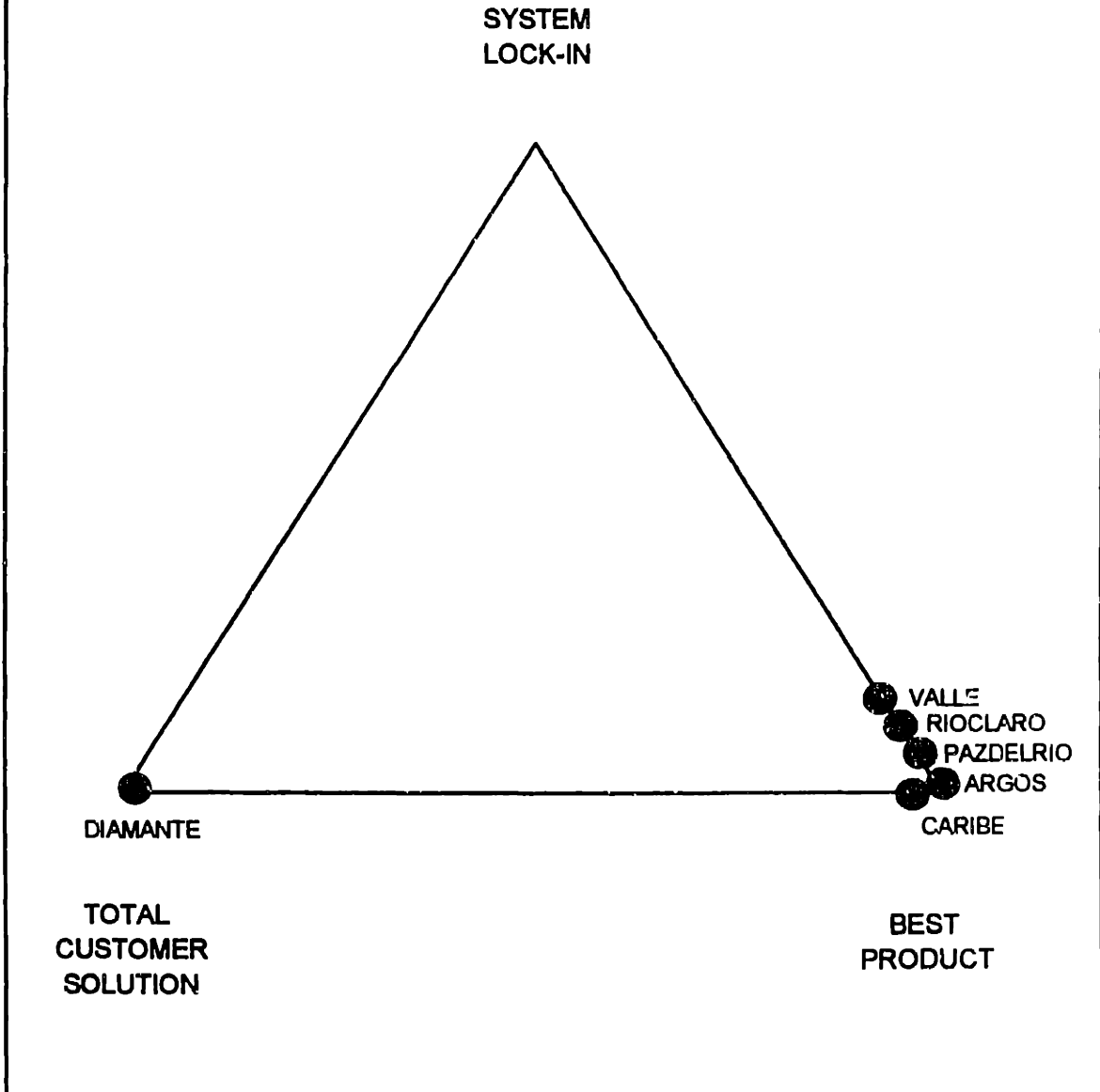
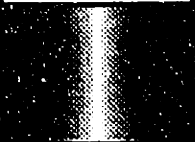
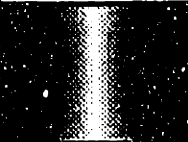
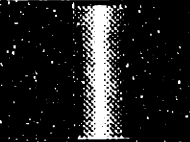
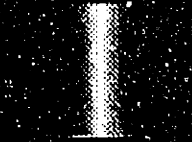
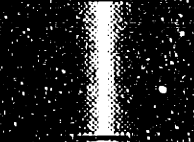


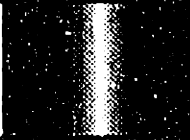
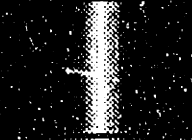
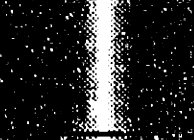


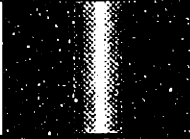
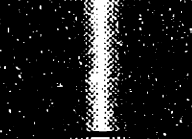
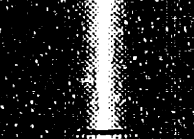


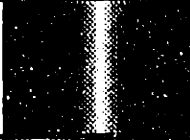
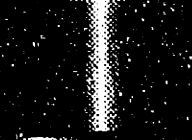
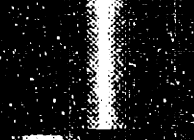
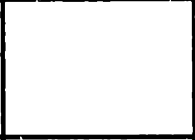

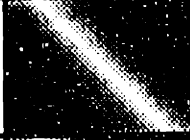
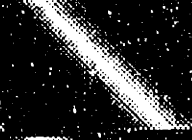



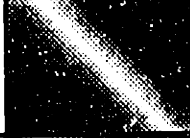
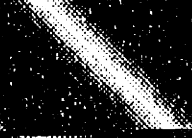
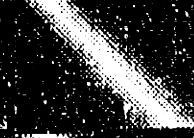


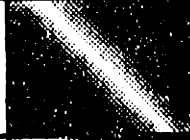
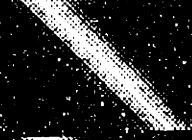
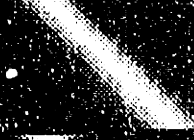


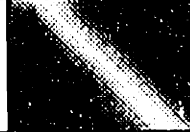
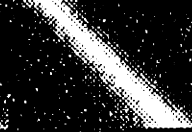
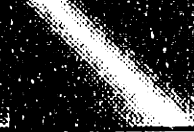


EXHIBIT No. 9

NEW MATRIX : TYPE OF CUSTOMER VS.
TYPE OF PRODUCT

CEMENTOS DIAMANTE S.A.	WHOLESA- LERS	RETAILERS /LOCAL STORES	CONSTRUC- TORS	INDUS- TRIALS	INFRA- STRUCTURE
CEMENT					
CONCRETE					
SAND					
GRAVEL					
BRICKS					
FIGURED STEEL					
WOOD FORMS					
MORTARS					



PRODUCT
PRESENCE



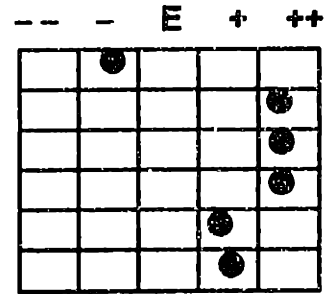
NEW PRODUCT PRESENCE

EXHIBIT No. 9A
PRODUCT SCOPE

Existing Product Scope

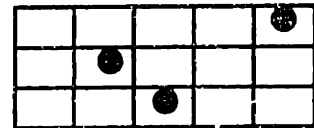
Cement:

- * Portland Cement
- * Quick strength cement
- * High liquidity cement
- * High strength cement
- * Low calorific cement
- * Plastic Cement



Other products:

- * Concrete
- * Granule Sand
- * Pre-builds



Services related to "gray" building:

- * Transportation
- * Financing



New Product Scope

- Bricks**
- Figure L Steel**
- Wood forms**
- Mortar**

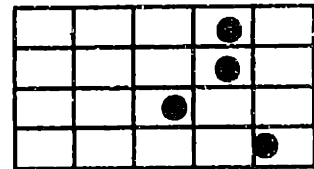
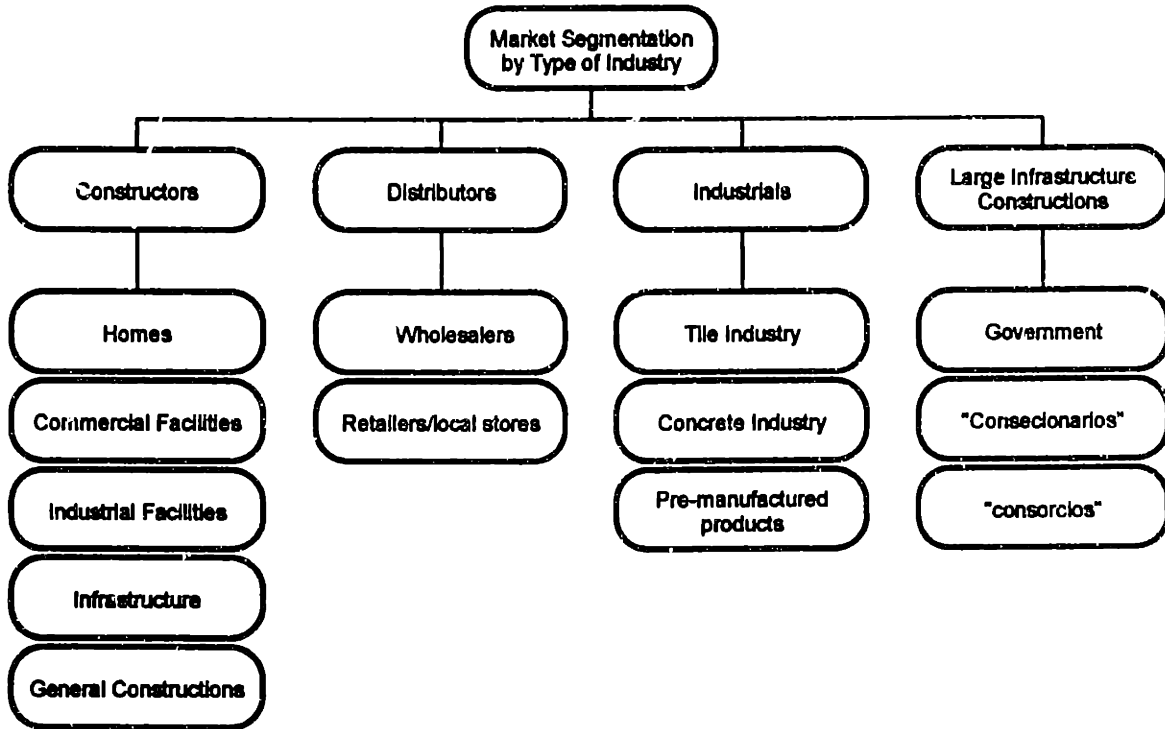


EXHIBIT No. 10

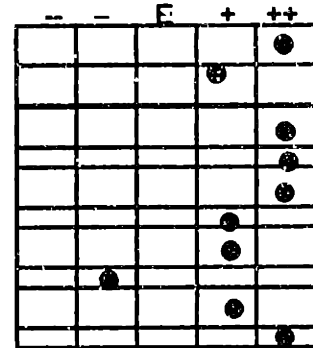
MARKET SEGMENTATION BY TYPE OF INDUSTRY



**EXHIBIT No. 10A
MARKET SCOPE**

Existing Market Scope

- Constructors**
- Construction of Infrastructure**
- Transformers:**
 - Prebuilder
 - Ready Mix
 - Industrials
- Wholesalers**
- Distributors**
- Individuals**
- Government Policies**
- Competitors**



The cement market in Colombia has the following characteristics:

- The inflation rate is 20% per year on average plus a devaluation rate of 20% per year in average. This is important because the cement industry has to import all equipment, and also when it needs a cheaper interest cost for borrowing the required money for growth.
- Due to government policies, in 1995 the construction market went down 10%.
- There are only five huge groups of companies that produce cement. This is an oligopoly market. It is very competitive.
- The market volume is (at 1995) 8.5 millions tons per year of cement.
- Benchmarking: Our principal sources for this subject are our customers, the financial statements of those companies that are available, our market intelligence department, which is our own sales force, and the public and private financial sector. We know very well our competitors and the way in which they can react against our movements:

	Cementos Diamante	Cementos Samper	Cementos Paz del Rio	Cementos Argos	Cementos Boyaca
Market Share	25%	10%	8%	42%	10%
Gross Margin	43%	30%	37%	27%	32%
Acc. Receivable	102 days	180 days	190 days	180 days	130 days
FOB prices	30% higher	Less distrib's margin	Less distrib's margin	Less distrib's margin	Less distrib's margin
Distribution	70% Direct Distribution	Through Distribution	Through Distribution	Through Distribution	Through Distribution

EXHIBIT No. 11

NEW GEOGRAPHIC SCOPE FOR CEMENTOS DIAMANTE S.A.

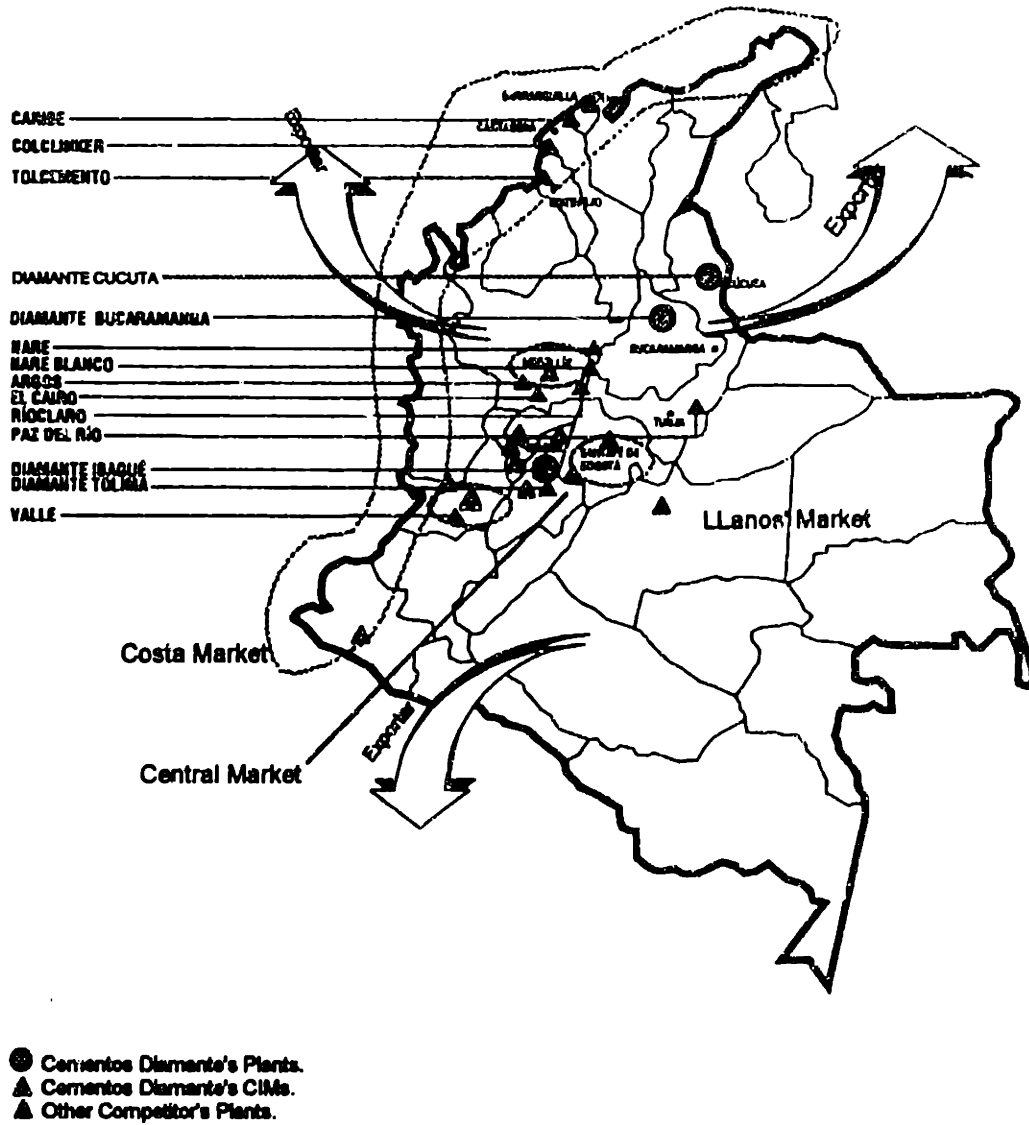
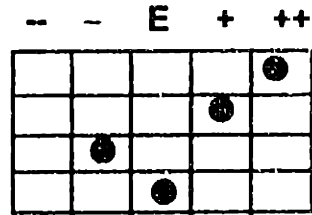


EXHIBIT No. 11A
GEOGRAPHIC SCOPE

Existing Geographic Scope

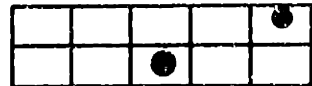
Colombia:

- * Central Area
- * Costa Market
- * LLanos Market
- * Santanderes Market



New Geographic Scope

Latin America
North America



Unique Competencies

Challenges from Changes in Unique Competencies

Customer Focus:

- * Total Customer Solution
 - * Improvement of Customer Economics
 - * Faster Reaction in facing Market Change
 - * Consulting
- Excellence and opportunity of the Information
Flexibility in the business process**

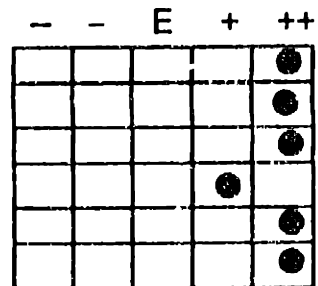


EXHIBIT No. 12

Latinamerican Cement Market Share by Countries

The total volume of the Latinamerican
cement market is 95 millions tons per year.

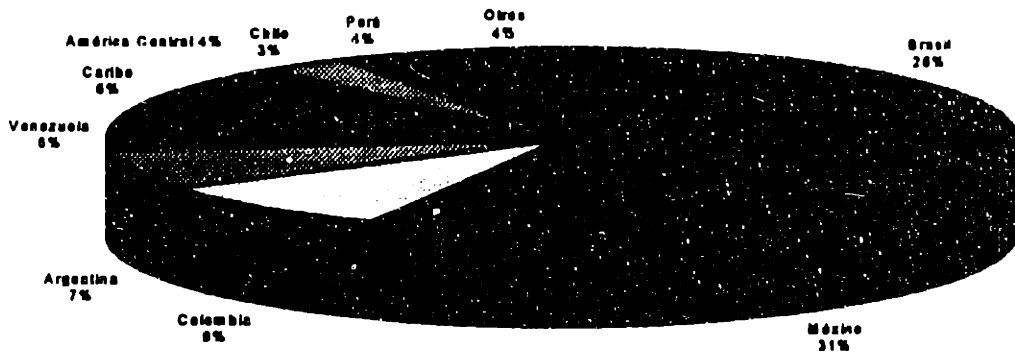


EXHIBIT No. 13

Total Production Vs. Installed Capacity Comparison
in the Colombian Cement Industry

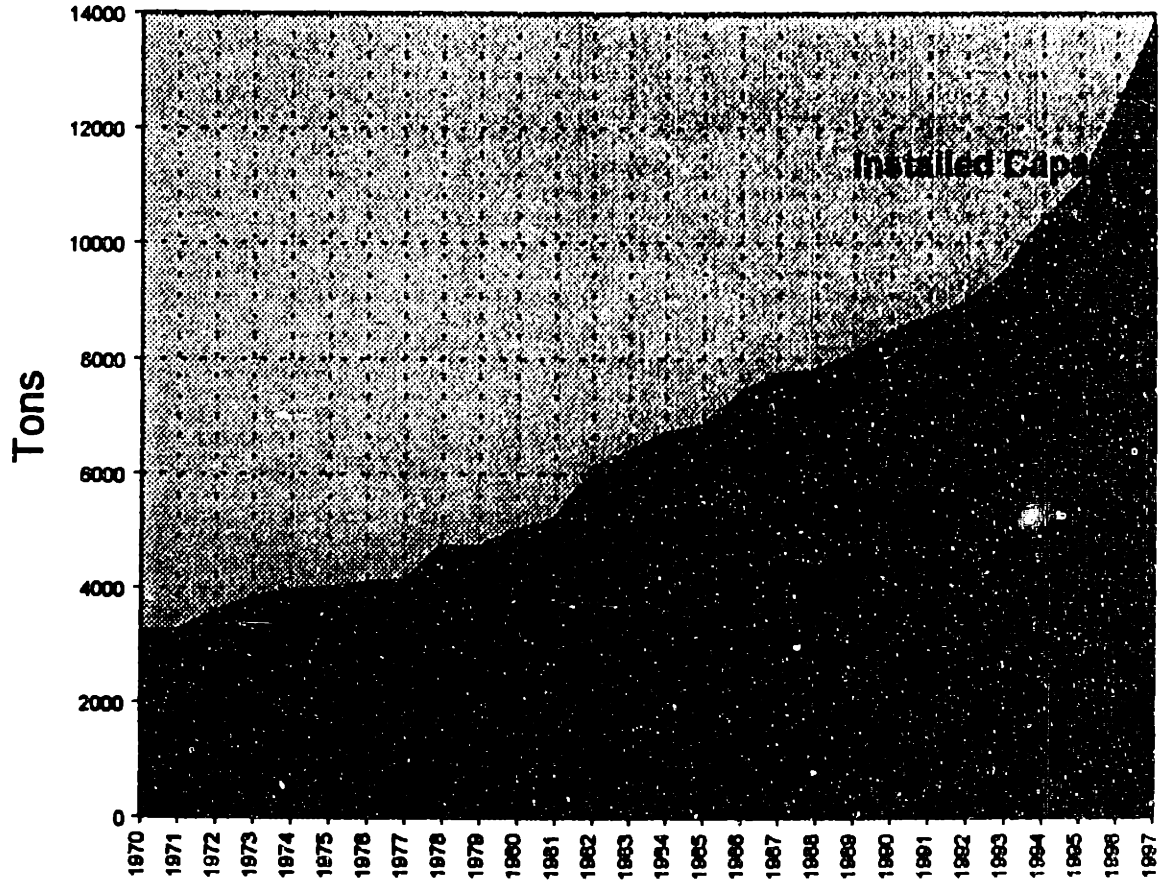


EXHIBIT No. 14

**Domestic Cement Market Share
in Colombia**

COMPANY	1993	1995	CHANGE
Diamante	15%	25%	10%
Boyaca	12%	11%	-1%
Samper	16%	15%	-1%
Antioqueno Group:			
Valle	17%	15%	-2%
Paz del Rio	10%	9%	-1%
Rio Claro	9%	8%	-1%
Argos	8%	5%	-3%
Caribe	6%	6%	0%
Nare	1%	1%	0%
Tolcemento	4%	3%	-1%
Colklinker	2%	2%	0%
Total Antioqueno group	57%	49%	-8%
Total Market	100%	100%	

EXHIBIT No. 15

The Main Financial Indicators of Diamante

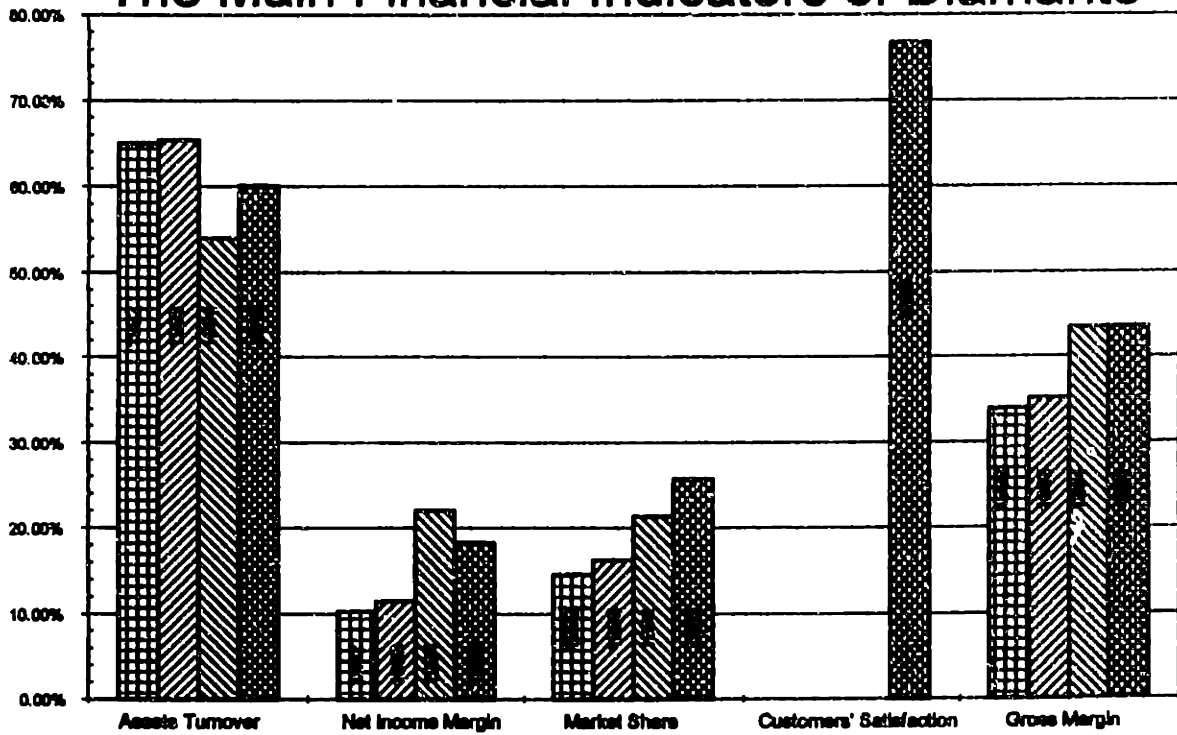


EXHIBIT No. 16

Return On Assets

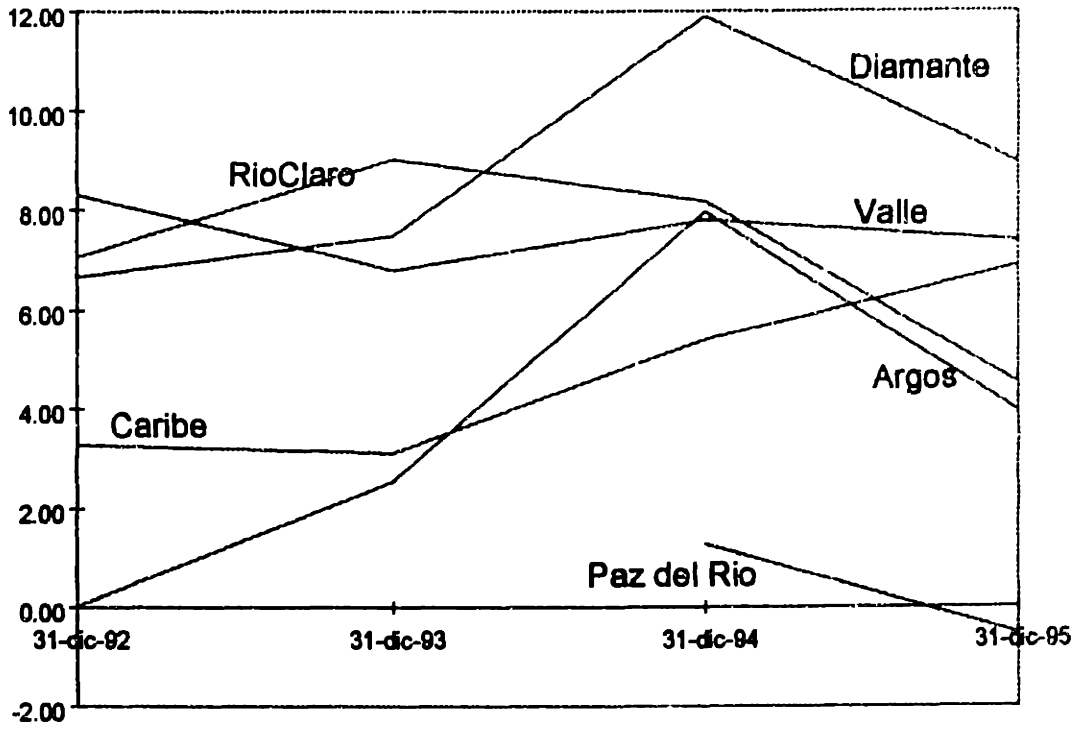


EXHIBIT No. 17

Return On Equity

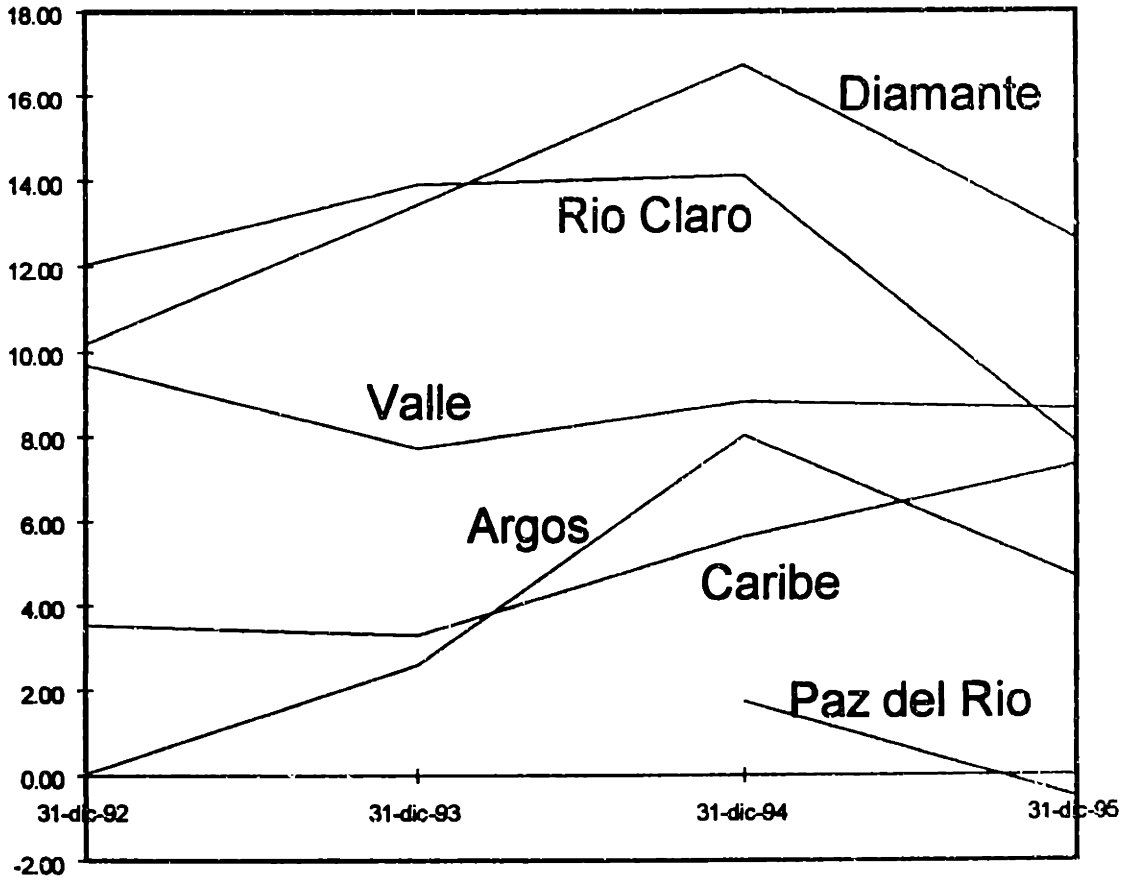


EXHIBIT No. 18

Debt Ratio

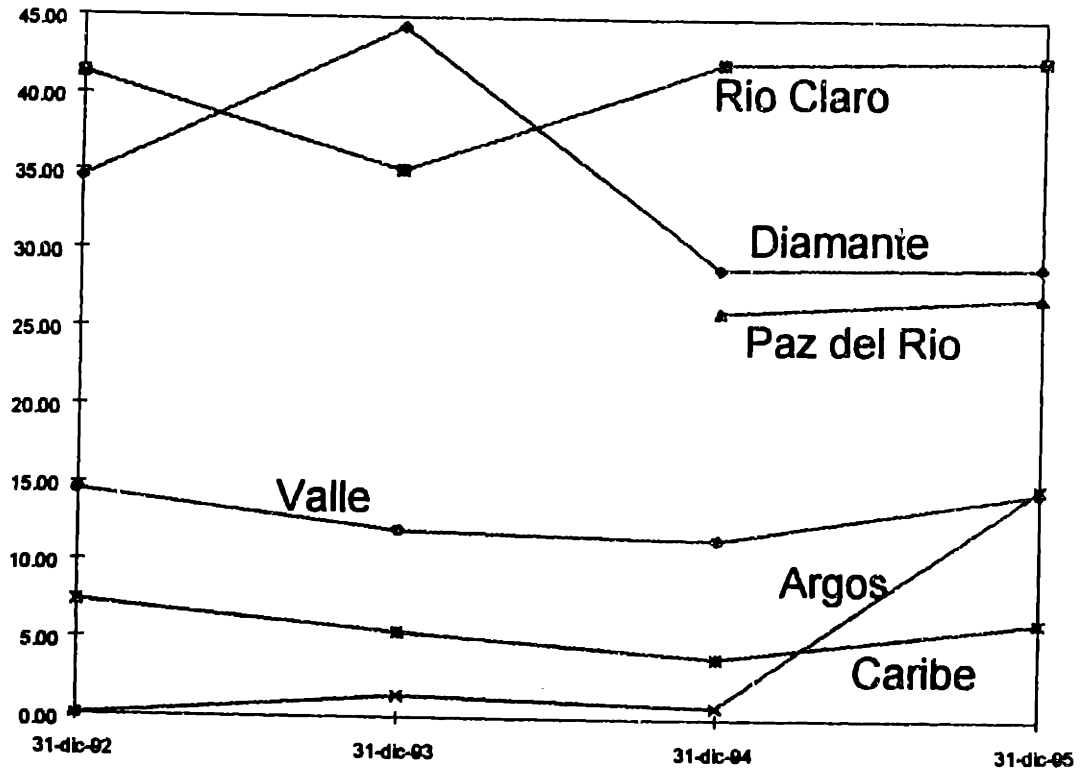


EXHIBIT No. 19

Gross Margin

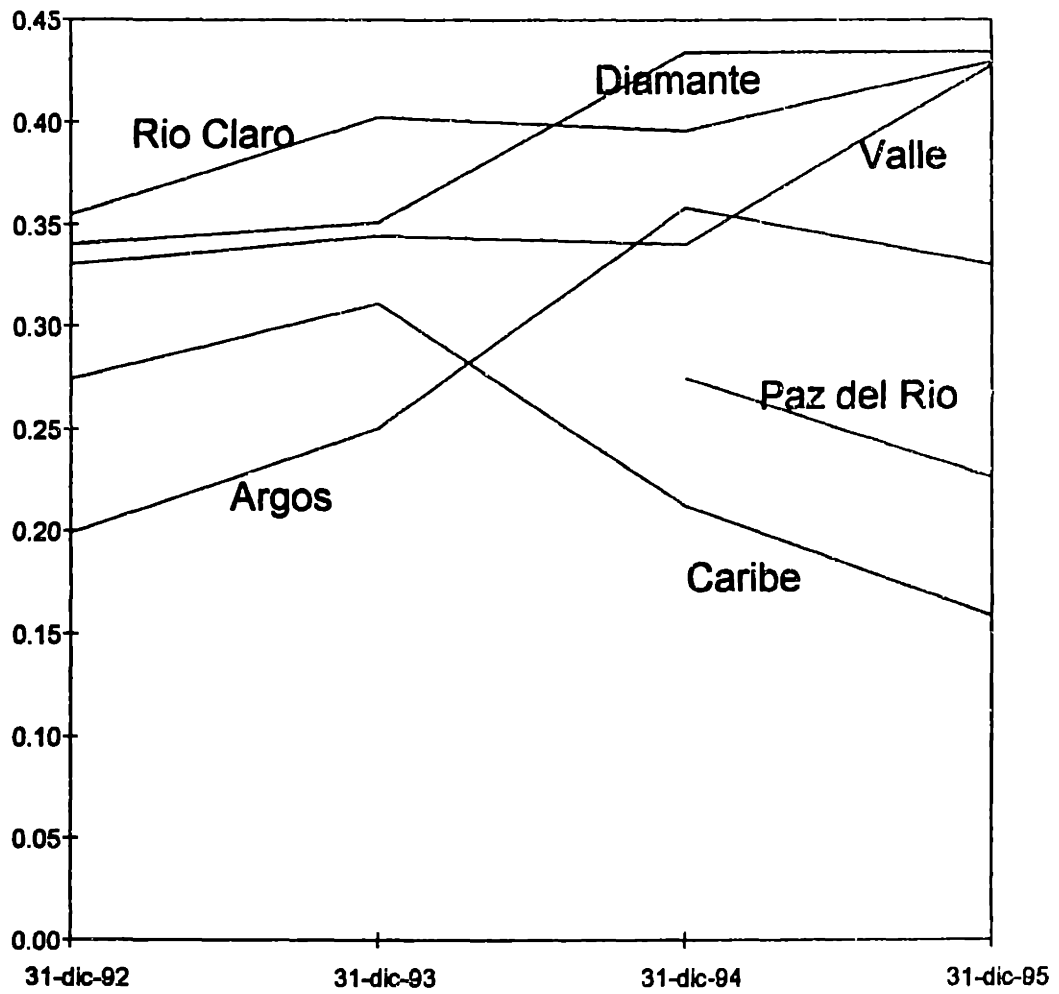


EXHIBIT No. 20

Operational Margin

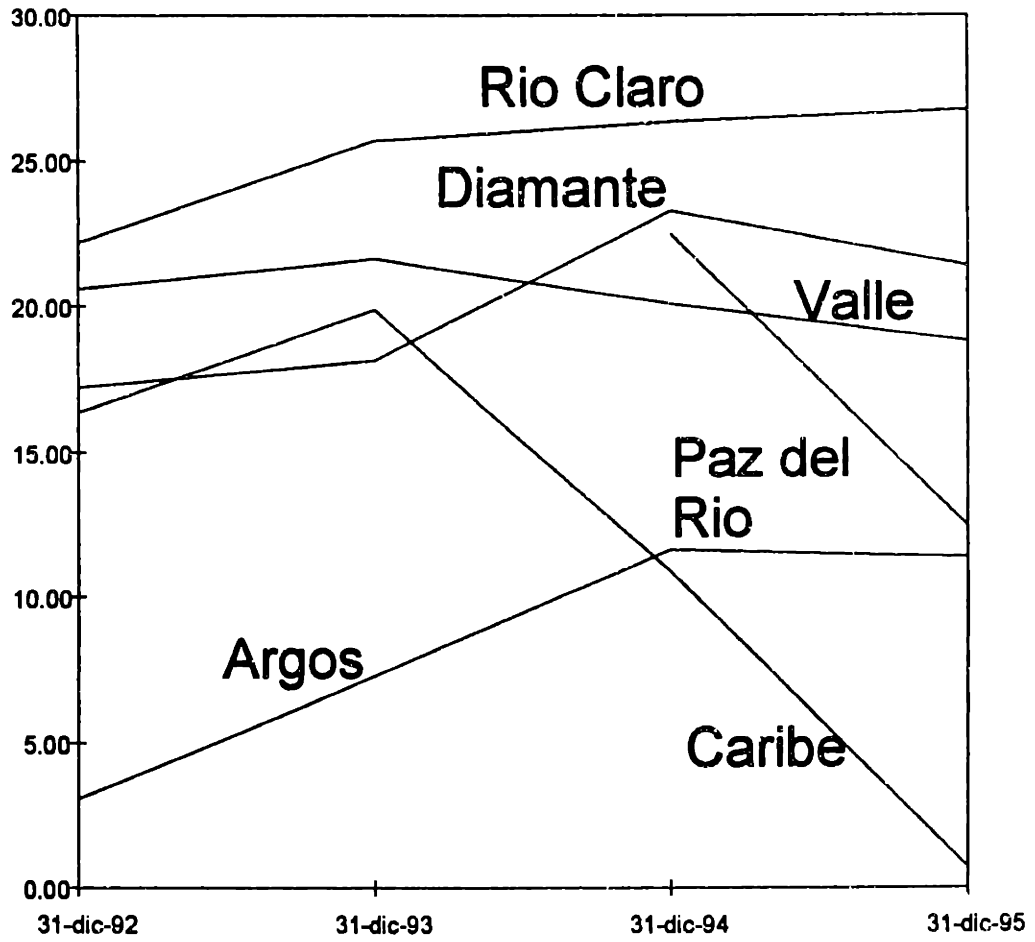


EXHIBIT No. 21

DIAMANTE'S BUSINESS MODEL

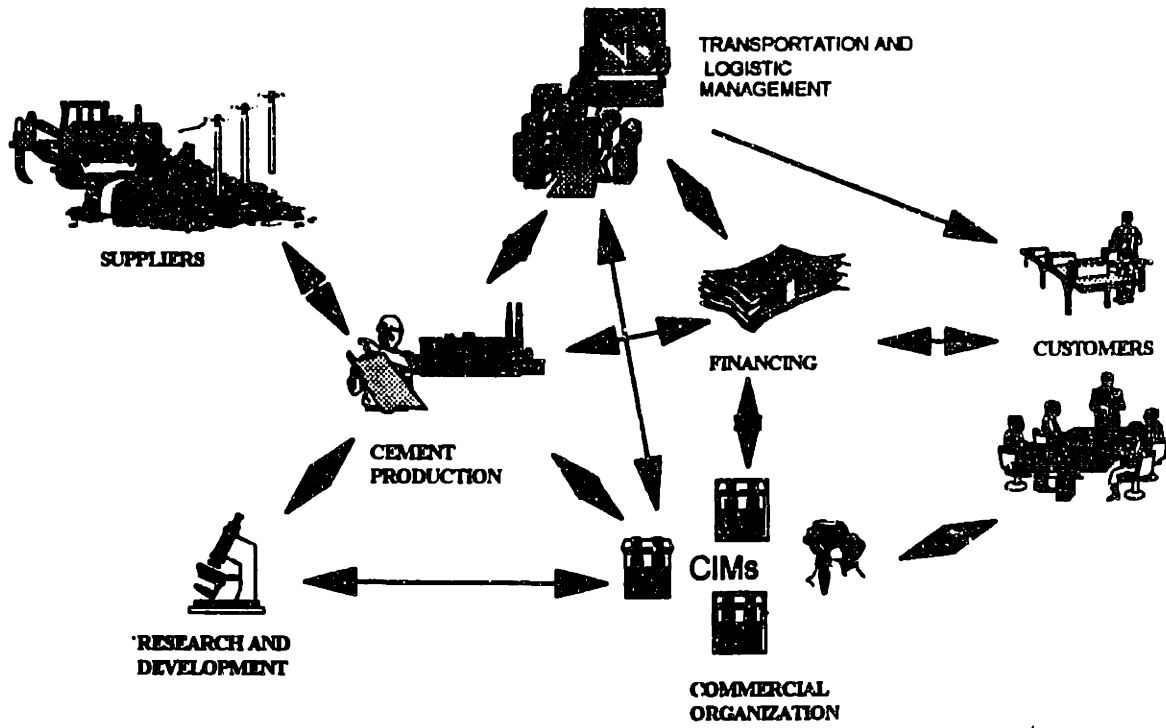


EXHIBIT No. 22

DIAMANTE'S VALUE CHAIN

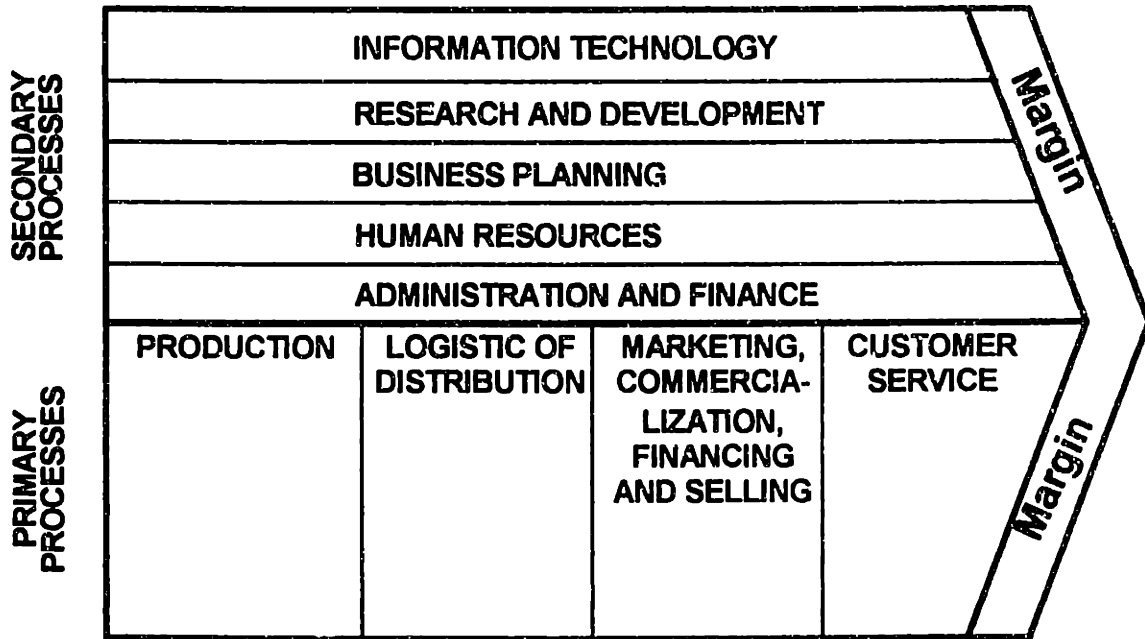


EXHIBIT No. 23

DISAGGREGATED ACTIVITIES IN DIAMANTE'S VALUE CHAIN

Information Technology	<ul style="list-style-type: none"> • Heavy investment in latest information technology infrastructure and technical support
Research and Development	<ul style="list-style-type: none"> • State of the art research laboratory for cement production processes and derivation of new substitute raw materials
Business Planning	<ul style="list-style-type: none"> • Vision in integration of business toward the customer. • Clear definition of business policies and project identification
Human Resource	<ul style="list-style-type: none"> • Strong selection and hiring process • Extensive employee training programs • Contribution to social work in local communities • Competitive compensation and benefits packages
Administration and Finance	<ul style="list-style-type: none"> • Strong assets and liabilities management • Good accounting and budgeting processes to support operations • Progressive insurance and legal services support

<ul style="list-style-type: none"> • Accessibility of high quality raw materials • Cutting edge technology in plant equipment • Low labor intensive operations • Superior production planning and control processes 	<ul style="list-style-type: none"> • Highly flexible transportation ability to meet a wide range of specifications to meet customer needs • Wide range of vehicle selection • Efficient use of back haul operations to improve overall transportation cost 	<ul style="list-style-type: none"> • Better customer solutions through integration of products and services • Superior risk analysis and collateral management • Strong administration of receivables and funding strategies • Direct relationships with all key customers 	<ul style="list-style-type: none"> • Strong post sales processes to support claims, warranties and customer requests • Extensive training programs for customers and promotion of products • Strong technical staff to support consultation of products specifications and usage(backed by state of the art research facilities)
Production	Logistics of Distribution	Marketing, Sales and Finance	Customer Service

EXHIBIT No. 24

**CEMENTOS DIAMANTE'S
GENERAL ORGANIZATION CHART**

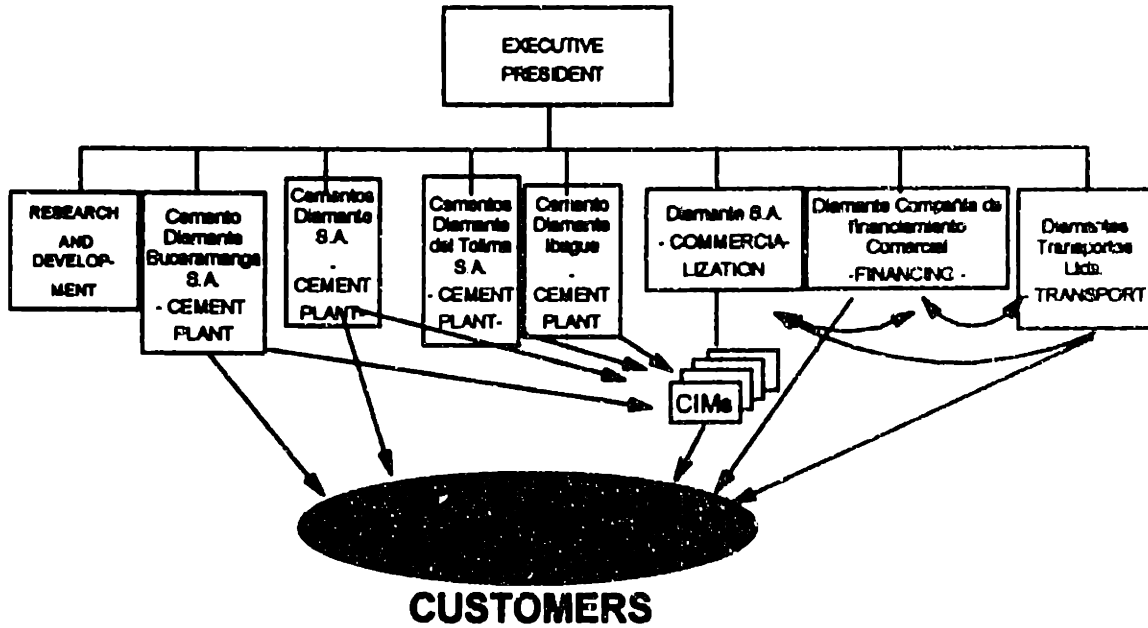


EXHIBIT No. 25

COMPETITIVE ASSESSMENT OF DIAMANTE vs. SINDICATO ANTIOQUENO

F: Future C: Current

Managerial Infrastructure	Very Weak	Weak	Even	Strong	Very Strong
Planning System				C	F
Management Control System			C		F
Organization Structure			C		F
Corporate Culture				C	F
Leadership Image				C	F
Corporate Image					C,F

Finance	Very Weak	Weak	Even	Strong	Very Strong
Capital Budgeting				C	F
Mergers, acquisitions and divestments			C	F	
Equity Mgmt and dividends policy					C,F
Long-term debt financing					C,F
Working Capital Management					C,F
Tax Management				C	F
Risk Management					C,F
Relationship with financial community					C,F
Financial organization and managerial infrastructure					C,F

Human Resource Management	Very Weak	Weak	Even	Strong	Very Strong
Selection, promotion and placement			C	F	
Appraisal system			C	F	
Reward system		C		F	
Labor/Employee relations and voice				C	F
International training		C		F	
Human resource management organization and managerial infrastructure		C			F

EXHIBIT No. 25 (cont.)

Technology	Very Weak	Weak	Even	Strong	Very Strong
Technology selection					C,F
Timing of new technology introduction					C,F
Modes of technology acquisition				C	F
Horizontal Strategy of technology			C		F
Project selection, evaluation, resource allocation and control				C	F
Technology organization and managerial infrastructure			C		F
Technology organization and managerial infrastructure			C		F
R&D facilities					C,F
Human resources					C,F
Development of new products					C,F
R&D funding					C,F
Patents				C	F

Procurement	Very Weak	Weak	Even	Strong	Very Strong
Selection, evaluation, and development of suppliers				C	F
Quality management of selected goods				C	F
Material management of purchased goods				C	F
Procurement organization and managerial infrastructure			C		F
Accessibility to high quality raw material					C,F

EXHIBIT No. 25 (cont.)

Manufacturing	Very Weak	Weak	Even	Strong	Very Strong
Facilities					C,F
Capacity					C,F
Vertical integration					C,F
Process technologies					C,F
Product scope and introduction of new products					C,F
Human resources					C,F
Quality management					C,F
Suppliers relations					C,F
Manufacturing organization and managerial infrastructure				C	F
Locations and number of plants					C,F
Size of plants					C,F
Age of plants					C,F
Automation					C,F
Integration					C,F
Availability of high quality raw materials					C,F
Logistics management systems					C,F
Quality					C,F
Procurement					C,F
Productivity					C,F
Capacity utilization					C,F
Unionization					C,F

EXHIBIT No. 25 (cont.)

Marketing and Sales	Very Weak	Weak	Even	Strong	Very Strong
Defining and analyzing markets				C	F
Product strategy				C	F
New product development and introduction					C,F
Distribution strategy					C,F
Price strategy					C,F
Promotion and advertising strategies			C,F		
Marketing organization and managerial infrastructure					C,F
Location and number of sales offices					C,F
Human resources				C	F
Distribution system					C,F
Market research				C	F
Key accounts				C	F
Price competitiveness					C,F
Breadth of product line					C,F
Brand loyalty				C	F
Sales force productivity					C,F
Distribution and service productivity					C,F
Business image					C,F

EXHIBIT No. 28

OVERALL ASSESSMENT OF KEY SUCCESS FACTORS

Key Success Factors	Very Weak	Weak	Even	Strong	Very Strong
Managerial infrastructure			C		F
Finance				F	C
Human resource management			C		F
Technology			C		F
Procurement					C,F
Manufacturing					C,F
Marketing and sales				C	F
Overall assessment				C	F

C: Current F: Future

EXHIBIT NO. 27

Broad Strategic Action Plans Against Corporate Weaknesses

Introduce new complementary products						
Increase Geographical Coverage in Colombia						
Improve Logistics						
Develop Transitional Organization	○	○	○	○	○	○
Optimize Process Control Systems					○	
Implement New Information Systems to Support Logistics, Marketing and Finance	○					
Reduce Transportation Costs						
Reduce Production Costs					○	
Achieve Organizational Culture that is Customer Oriented	○	○	○			
Increase Customer Satisfaction						
Increase Commitment to Having High Quality Employees	○	○	○	○	○	○
Penetrate International Markets						
Increase Market Share in Colombia						
Increase Production Capacity					○	
	Disjointed administrative and commercial processes Lack of shared vision across subsidiaries and workforce Poor definition of internal customer Evaluation and compensation systems do not produce desired level of performance Inability to control fixed costs to targeted level Lack of teamwork Lack of interactions among employees in the primary processes					

EXHIBIT No. 27 (cont.)

Broad Strategic Action Plans Against Corporate Strengths

Introduce new complementary products			<input type="radio"/>	<input type="radio"/>	<input type="radio"/>			
Increase Geographical Coverage in Colombia	<input type="radio"/>		<input type="radio"/>			<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Improve Logistics	<input type="radio"/>		<input type="radio"/>				<input type="radio"/>	<input type="radio"/>
Develop Transitional Organization								
Optimize Process Control Systems		<input type="radio"/>						
Implement New Information Systems to Support Logistics, Marketing and Finance						<input type="radio"/>		
Reduce Transportation Costs	<input type="radio"/>						<input type="radio"/>	
Reduce Production Costs		<input type="radio"/>			<input type="radio"/>			
Achieve Organizational Culture that is Customer Oriented								
Increase Customer Satisfaction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>		<input type="radio"/>	
Increase Commitment to Having High Quality Employees	<input type="radio"/>					<input type="radio"/>		
Penetrate International Markets	<input type="radio"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Increase Market Share in Colombia	<input type="radio"/>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Increase Production Capacity		<input type="radio"/>				<input type="radio"/>		<input type="radio"/>
	<p>The Transportation and Finance companies provide a competitive advantage</p> <p>High technology in production of product</p> <p>Employees know the business and industry well</p> <p>Good positioning of products in the market</p> <p>Accessibility to high quality raw materials</p> <p>Strong capital structure and financial resources</p> <p>Strategic locations of cement plants</p> <p>Ability to ramp up production on short notice</p>							

EXHIBIT No. 27 (cont.)

Broad Strategic Action Plans Against Corporate Threats and Opportunities

Introduce new complementary products			<input type="radio"/>		<input type="radio"/>			<input type="radio"/>
Increase Geographical Coverage in Colombia								<input type="radio"/>
Improve Logistics					<input type="radio"/>			<input type="radio"/>
Develop Transitional Organization			<input type="radio"/>				<input type="radio"/>	
Optimize Process Control Systems					<input type="radio"/>	<input type="radio"/>		<input type="radio"/>
Implement New Information Systems to Support Logistics, Marketing and Finance					<input type="radio"/>	<input type="radio"/>		<input type="radio"/>
Reduce Transportation Costs					<input type="radio"/>			<input type="radio"/>
Reduce Production Costs					<input type="radio"/>	<input type="radio"/>		<input type="radio"/>
Achieve Organizational Culture that is Customer Oriented							<input type="radio"/>	<input type="radio"/>
Increase Customer Satisfaction			<input type="radio"/>		<input type="radio"/>	<input type="radio"/>		<input type="radio"/>
Increase Commitment to Having High Quality Employees							<input type="radio"/>	
Penetrate International Markets			<input type="radio"/>		<input type="radio"/>	<input type="radio"/>		<input type="radio"/>
Increase Market Share in Colombia			<input type="radio"/>		<input type="radio"/>			<input type="radio"/>
Increase Production Capacity								<input type="radio"/>
OPPORTUNITY:								
Attract new customers with flexible financing offered by Diamante Finance Co.								
THREATS:								
Short term reduction in domestic demand								
Increased environmental pressures								
Cultural conflicts								
Increased pressure from competitors in Colombia and Latin America								

EXHIBIT No. 28

Statement of Strategic Thrusts – Grupo Diamante

Strategic Thrusts	Functions								ADAPTIVE PROCESSES	Performance Measures
	CEO	Finance	Procurement	Human Resources	Production/Operations	Marketing	R&D	Information Systems		
Match prod. capacity 110% of targeted market share		2	2	1	1		2	2	B	Output capacity available vs. market share volume, capacity utilization.
Increase market share in Colombia over 35%	2			2		1		1	CT	% market share
Penetrate 20% intl market in Brazil, Peru, Ecuador	1	2			2	1		2	B	Sales per country in units and U\$, % market share, prices
Increase commitment to high quality employees	1	2	2	1	2	2	2	2	CT B	Employee turnover, hours training per employee, absenteeism
Increase customer satisfaction and TCS	2			2	2	1	2	2	CT	Customer satisfaction index, volume of repeated businesses,
Achieve customer-oriented culture	1			1	2	1	2	2	CT B	Hours of training on customer needs, survey of customer awareness
Increase cost competitiveness to domestic and foreign markets		2	1	2	1	2	1	2	OE	Cost/ton of cement vs. world's standard costs, delivery costs per ton.
Reduce transportation costs, elimination of backhaul costs for customers.		2	1	2	2	1	2	2	OE CT	Cost per ton transported, % backhaul achieved. # new transportation customers.
Implement new information systems to support the new strategic position.	2	2	1	2	2	1	2	1	I CT	Number of systems installed, availability of the required information.
Optimize process control systems: impl. expert systems			2	2	1		1	2	OE	Tons of reject product, # of stops, achievement of intl standards
Develop transitional organization (transformation)	1	2	2	1	2	2	2	2	B	New organizational structure, number of employees in new str
Design, implementation and improve logistics packages to support TCS			2		2	2	1	1	CT	Total cost of product per ton savings per ton, number of non-conforming deliveries
Introduce new complementary products to support TCS	2				1	1	2	2	I CT	Number of new, non-core prcts. Revenues/volume from new Pd.
Increase coverage in developing areas in Colombia.		2	2	2	1	1		2	B	Percent of business in those areas. # of new cities attended.

1 – Top Priority for organization

2 – Supporting role for organization

B: Business Model. OE: Operational Effectiveness. CT: Customer Targeting. I: Innovation.

EXHIBIT No. 29

Strategic Thrust: Match Production Capacity 110% of targeted market share.

Description: Diamante must maintain its cost position and increase its share in the Colombian market. To do so, it must increase its production capacity and the number of locations in the country. The additional production capacity will be critical for expansion into other markets.
Responsible Manager: Vice President Production Ops
Other Key Participants: Vice President of Finance, Vice President Human Resources
Other Important Contributors: Procurement, Information Systems, R&D
Key Indicators for Management Control and Targets: Total domestic output capacity, volume of output versus same period last year
First Major Milestone Description: Increase total output by 5%
First Major Milestone Date: Three months from date of plan acceptance
Resources Required: Additional production staff, increase in working capital for raw materials, short-term increase in inventories
Statement of Benefits: Increasing the production capacity will allow Diamante to maintain its cost advantage, adjust rapidly to increases in demand for both cement and concrete and begin aggressively pursuing other markets in The Americas.

Strategic Thrust: Increase Market Share in Colombia over 35%.

Description: Having established itself as the market leader, Diamante must continue to leverage its position as lowest cost and best Total Customer Solution to win additional customers and market share. Diamante will pursue new business by offering a total customer solution, financing for large customers and lowest price (through direct distribution and lowest cost of production) only when necessary to win the business.
Responsible Manager: Vice President of Marketing
Other Key Participants: Vice President of Information Systems
Other Important Contributors: CEO, Vice President of Human Resources
Key Indicators for Management Control and Targets: Share of total market in Colombia, volume of new sales in Colombia, volume of business taken from competitors
First Major Milestone Description: Increase share of domestic concrete market 3%
First Major Milestone Date: Six months after plan acceptance
Resources Required: Introduction of new supporting products, additional marketing staff, training for employees in Marketing
Statement of Benefits: This is Diamante's largest market. Increasing share in this market will allow it to keep costs low and maximize the utilization of its capital assets. Since most of the company's revenues come from this market any increase in share will strengthen the firm's financial position.

EXHIBIT No. 29 (cont.)

Strategic Thrust: Penetrate 20% of International Markets in Brazil, Peru, Ecuador.

Description: Diamante must develop foreign markets if it is to continue growing and take full advantage of its superior cost structure which has been achieved partially through large scale production. Diamante will increase its share of the markets in its neighbors—Brazil and Peru—and then expand into other portions of South and Central America. The firm will also pursue growth into the U.S. market.
Responsible Manager: Vice President of Marketing
Other Key Participants: Vice President of Production/Ops, CEO
Other Important Contributors: Information Systems, R&D, Finance
Key Indicators for Management Control and Targets: Share of total market in each new country, total sales volume outside Colombia, foreign sales as a total of corporate sales, new sales in foreign markets
First Major Milestone Description: Penetrate market in Venezuela
First Major Milestone Date: Six months after plan approval
Resources Required: Additional personnel to conduct the marketing effort, working capital to support the increased cost of transportation, financing for large customers in the new markets
Statement of Benefits: Stronger economic position, full utilization of plant capacity, increase in world market share

Strategic Thrust: Increase Commitment to Having High Quality Employees

Description: In order to maintain its dominant position Diamante must have the best available personnel and they must be well trained. This thrust addresses the compensation systems of the firm, training programs, and the overall recruiting and reward system.
Responsible Manager: Vice President Human Resources
Other Key Participants: CEO
Other Important Contributors: All other departments at Diamante
Key Indicators for Management Control and Targets: Number of hours of employee training per year, employee turnover, employee satisfaction(as measured through an annual survey), employee compensation relative to strongest competitor in Colombia
First Major Milestone Description: Establish base line data for recurring assessment process
First Major Milestone Date: Six months after plan acceptance
Resources Required: Human Resources staff, financing for training programs in each department, financing(potentially) for additional salaries, bonuses and rewards
Statement of Benefits: By having the highest quality people in all aspects of the business Diamante can continue to reduce costs, improve logistics and increase market share by applying the intellectual capital of its workers to all aspects of the business.

EXHIBIT No. 29 (cont.)

Strategic Thrust: Increase Customer Satisfaction and Total Customer Solution.

Description: Diamante must have satisfied customers. There are many competitors in this market. Customer satisfaction will translate into customer loyalty. This will reduce the overall cost of attracting and retaining business, further lowering Diamante's total cost and keeping customers committed to a quality supplier.
Responsible Manager: Vice President of Marketing
Other Key Participants: CEO, Vice President of Human Resources
Other Important Contributors: Production/Ops, R&D
Key Indicators for Management Control and Targets: Customer satisfaction index from repeated surveys, repeat business as a percentage of total business
First Major Milestone Description: Establish baseline of customer satisfaction by surveying customers to identify their level of satisfaction AND how Diamante can improve their satisfaction.
First Major Milestone Date: Four months after plan acceptance
Resources Required: This thrust is potentially far-reaching. The collection and analysis of the satisfaction data will require funding for the survey and information systems processing time. Once the data has been analyzed, the firm can determine what changes are needed and what resources will be required to implement those changes.
Statement of Benefits: Reduced marketing costs through the retention of customers, increases in repeat business from satisfied customers, higher profitability through selling more products at lower per unit costs to these customers.

EXHIBIT No. 29 (cont.)

Strategic Thrust: Achieve an Organizational Culture that is Customer Oriented

Description: The current organization is fragmented and internally focused. Diamante must be focused on customers and delivery of a Total Customer Solution if it is to succeed domestically. This thrust will start to change the culture at Diamante with training, new rewards and some reassignments if necessary.
Responsible Manager: Vice President Human Resources
Other Key Participants: CEO, Vice Presidents of Marketing and Production/Ops
Other Important Contributors: All other departments
Key Indicators for Management Control and Targets: Hours of training on customer needs, survey (of employees) on customer awareness, number of cross-functional teams working on customer (either internal or external) projects.
First Major Milestone Description: Develop and deliver corporate statement and training on customer importance and focus
First Major Milestone Date: Two months after plan acceptance
Resources Required: Staff from Marketing and Human Resources, training specialists, funds to conduct recurring surveys of employee attitudes, reward systems that support managers who focus their staff on customers and remove those that don't.
Statement of Benefits: The set of activities in this action plan will increase customer satisfaction and focus the human and financial resources of the company on those initiatives that benefit customers.

EXHIBIT No. 29 (cont.)

Strategic Thrust: Increase Cost Competitiveness in Domestic and Foreign Markets.

Description: Diamante will maintain its lowest cost production position by continually seeking better production systems and techniques. The firm will continue to apply automation to the production processes and optimize logistics to keep costs down.
Responsible Manager: Vice President of Production/Ops
Other Key Participants: Vice Presidents of Procurement, R&D
Other Important Contributors: Vice President of Finance, Vice President of Logistics
Key Indicators for Management Control and Targets: Cost versus competitors, total cost of production per ton of product
First Major Milestone Description: Elimination of all trucks in the transportation of raw material and replacement with automatic conveyor systems.
First Major Milestone Date: Ten months after plan acceptance
Resources Required: Construction expertise, financing for constructing the belt systems, funds for control systems to connect the belt systems to the main control room
Statement of Benefits: Reduction of 80% in the cost of moving raw materials, more accurate delivery of raw materials, improved inventory management, elimination of reliance on third parties for some portions of product production.

Strategic Thrust: Reduce Transportation Costs, Elimination of "Back-haul" Costs.

Description: To stay competitive Diamante must reduce overall transportation costs for products. This will be accomplished by reducing or eliminating the empty back-haul of trucks, optimization of fleet scheduling, and tight matching of customer orders with the available transportation capacity.
Responsible Manager: Vice President of Logistics
Other Key Participants: Vice President of Marketing, Vice President of Information Systems
Other Important Contributors: Vice President of Finance
Key Indicators for Management Control and Targets: Cost of transportation per ton of product, number of empty back-haul trips, number of orders not processed on the requested date
First Major Milestone Description: Optimization of back-haul capacity
First Major Milestone Date: Four months after plan acceptance
Resources Required: Personnel in logistics to coordinate new back-haul agreements, staff in information systems to make changes in the scheduling system, information on planned back-haul and available back-haul space on trucks.
Statement of Benefits: Up to 49% reduction in the cost of transportation, additional revenues from the new back-haul business, lower total cost which leads to price stability for Diamante and customers.

EXHIBIT No. 29 (cont.)

Strategic Thrust: Implement New Information Systems to Support Logistics, Marketing, Finance and the new Strategic Position.

Description: Diamante needs information systems that provide good customer and market information, integrate the production and delivery information for all products, and provide master scheduling for all production. This will require new software, hardware and a centralized database.
Responsible Manager: Vice President of Information Systems
Other Key Participants: Vice President of Marketing, Vice President of Procurement
Other Important Contributors: Production/Ops, Human Resources, Logistics
Key Indicators for Management Control and Targets: Number of new systems or modules installed, volume of transactions on new systems, number of customer deliveries scheduled through the new systems
First Major Milestone Description: Develop integrated logistics system
First Major Milestone Date: First version due six months after plan acceptance
Resources Required: Financing for additional systems development work, software and new hardware. Personnel from Information Systems and the experts from each of the functional groups.
Statement of Benefits: Improved delivery of products to customers, improved data for marketing to new and existing customers, reduced costs through improved logistics, increased customer satisfaction through accurate, timely information on all orders and deliveries, increased customer satisfaction through the ability to accurately schedule deliveries

Strategic Thrust: Optimize Process Control Systems: to Implement Expert Systems.

Description: Because this is a massive continuous production process, the company needs to be sure that the quality of the product is always maintained at the highest possible level. This is enabled through the cutting edge process control technologies at Diamante.
Responsible Manager: Vice President Production/Ops
Other Key Participants: Vice President R&D
Other Important Contributors: Information Systems, Marketing
Key Indicators for Management Control and Targets: Standard deviation of quality indicators for the product, tons of rejected product, production output per hour
First Major Milestone Description: Establish "best practices" benchmarks
First Major Milestone Date: Six months from date of plan acceptance
Resources Required: Highly qualified engineers, constant information on the flow materials and the quality of the product.
Statement of Benefits: High quality process control systems will allow Diamante to deliver the highest possible quality product and produce at the maximum level of efficiency.

EXHIBIT No. 29 (cont.)

Strategic Thrust: Develop Transitional Organization (Transformation)

Description: Diamante needs to change from a hierarchical organization to one that is flexible, empowered and customer focused. This set of activities will define and implement a new structure which will allow the company to optimize its resources around customers and the teamwork approach to problem solving.
Responsible Manager: Vice President of Human Resources
Other Key Participants: CEO, All other Vice Presidents
Other Important Contributors: Outside consultants
Key Indicators for Management Control and Targets: Defined new organizational structure, number of employees placed into new structure
First Major Milestone Description: Design of the new structure
First Major Milestone Date: Four months after plan acceptance
Resources Required: Cross functional team dedicated to this strategic activity, funds to acquire the appropriate consulting expertise in organizational structures, training funds to prepare and disseminate information on the new structure to employees and to customers.
Statement of Benefits: Improved internal workflow, reduced overhead costs, higher customer satisfaction, improved employee morale(in the long run)

Strategic Thrust: Design, Implementation, and Improvement of Logistics' Packages to Support the TCS

Description: Diamante will improve its total logistics (from raw materials to delivery to the customer) by upgrading information systems, working closely with customers and using its own transportation company rather than intermediaries.
Responsible Manager: Vice President of Logistics
Other Key Participants: Vice President of Information Systems
Other Important Contributors: Production/Ops, Procurement, Marketing
Key Indicators for Management Control and Targets: Total cost of delivery per ton of product, number of non-conforming deliveries
First Major Milestone Description: Eliminate all outside contracts with intermediaries.
First Major Milestone Date: Six months after plan acceptance.
Resources Required: Staff to handle termination of contracts, funds to expand internal transportation company, information systems to integrate all logistics information flows.
Statement of Benefits: Reduced total cost of logistics, improved flexibility in handling customers requests, reduced cycle time for changing any portion of the logistics chain.

EXHIBIT No. 29 (cont.)

Strategic Thrust: Increase Coverage in Developing Areas in Colombia.

Description: Diamante will increase the number of facilities in Colombia to gain access to additional customers domestically.
Responsible Manager: Vice President of Marketing
Other Key Participants: Vice President of Production/Ops
Other Important Contributors: Vice President of Finance, Information Systems
Key Indicators for Management Control and Targets: Number of facilities in Colombia, percentage of businesses located within 50 miles of a Diamante facility, sales volume of products delivered from new facilities
First Major Milestone Description: Opening of new facility in the Cali area
First Major Milestone Date: One year from date of plan acceptance
Resources Required: Real estate expertise for site selection, financing for new facilities and additional trucking capacity, staff for new facilities, information systems to connect these locations to the corporate network.
Statement of Benefits: Much of the business in the ready-mix concrete market is derived in the immediate area of a supplier. The concrete has a "shelf life" of three hours. Diamante can increase its share of this market and keep its cost to the customer low by delivering directly (not using intermediaries) and by having a good network of facilities throughout Colombia.

Strategic Thrust: Introduce New Complementary Products to Support the TCS

Description: This is perhaps the key thrust for Diamante, at least domestically. The firm will introduce a series of new, complementary products that position it as the Total Customer Solution provider for heavy construction projects. Among these new products will be the wooden forms used to hold concrete and cement during curing. By identifying and providing all the ancillary tools and products needed to do a job, Diamante can become the sole provider of materials to major contractors.
Responsible Manager: Vice President of Marketing
Other Key Participants: Vice President R&D, Vice President Operations
Other Important Contributors: CEO, Information Systems
Key Indicators for Management Control and Targets: Number of new complementary products introduced, volume of sales of new products, volume of new business from existing customers, market share in Colombia
First Major Milestone Description: Introduction of wooden forms as a new product
First Major Milestone Date: Three months from acceptance date of plan
Resources Required: Source for forms or raw materials, storage space for forms (near customers), training for sales and technical staff on new offerings, financing for initial acquisition of materials and space
Statement of Benefits: This strategy will allow Diamante to differentiate itself from the competition by supplying all needed products for cement and concrete customers. This will reduce the logistics and costs for customers and offer a "best" source (Diamante) for all the customers' needs. This will put Diamante in a unique position compared to its rivals.

EXHIBIT No. 30

The Value of Cementos Diamante without application of the strategy
(Thousand Dollars)

1,994	1,995	CONCEPT	1,996	1,997	1,998	1,999	2,000
154,843	196,094	Sales	205,809	216,104	227,003	238,353	250,271
	27%	Sales Growth (%)	5%	5%	5%	5%	5%
87,493	110,927	Cost of goods sold	116,473	122,297	128,412	134,832	141,574
57%	57%	% of Sales	57%	57%	57%	57%	57%
67,150	85,167	Gross Income	89,425	93,897	98,591	103,521	108,697
43%	43%	Gross Margin (%)	43%	43%	43%	43%	43%
28,058	38,319	Administration Expenses	40,235	42,247	44,359	46,577	48,908
18%	20%	% of Sales	20%	20%	20%	20%	20%
39,092	46,848	Earning Before Taxes	49,190	51,650	54,232	56,944	59,791
5,009	11,179	Taxes on Income	11,738	12,325	12,941	13,588	14,268
13%	24%	% of Income	24%	24%	24%	24%	24%
34,083	35,669	Net Income	37,452	39,325	41,291	43,358	45,524
22%	18%	% of Sales	18%	18%	18%	18%	18%
34,549	30,214	Capital Expenditures	11,236	11,798	12,387	13,007	13,657
101%	85%	as % of Net Income	30%	30%	30%	30%	30%
9,853	14,231	Depreciation & Amortization	16,472	19,457	22,700	23,635	25,027
6%	7%	% of Sales	8%	9%	10%	10%	10%
		Increase in WC	980	1,029	1,081	1,135	1,192
		(10% of sales growth)					
		Cash Flow	41,708	45,955	50,523	53,049	55,702
		Terminal Value (estimated)					600,000
		Discount Factor (24%)	1.2400	1.5376	1.9066	2.3642	2.9316
		Discounted Cash Flow	33,636	29,888	26,499	22,439	19,000
		Present Value Of Cash Flow	131,481				
		P.V. Of Terminal Value	204,663				
		Total P.V.	336,126				

EXHIBIT No. 31

The value of Cementos Diamante with the application of the strategy (Thousand Dollars)

1,994	1,995	CONCEPT	1,996	1,997	1,998	1,999	2,000
154,643	196,094	Sales	225,508	250,334	285,268	313,795	345,174
	27%	Sales Growth (%)	15%	15%	10%	10%	10%
The company would increase its market share from 25% to 35% in two years at lower prices, more products							
87,493	110,927	Cost of goods sold	128,540	147,821	162,603	178,863	188,740
57%	57%	% of Sales	57%	57%	57%	57%	57%
The new complementary products increase costs and new technology reduces cost. (net)							
67,150	85,167	Gross Income	96,968	111,514	122,665	134,932	148,425
43%	43%	Gross Margin (%)	43%	43%	43%	43%	43%
28,058	38,319	Administration Expenses	40,591	46,680	51,348	58,483	62,131
18%	20%	% of Sales	18%	18%	18%	18%	18%
New strategy will reduce unnecessary adm. expenses and increase others for new products							
39,092	46,848	Earning Before Taxes	56,377	64,834	71,317	78,449	86,293
5,009	11,179	Taxes on Income	13,453	15,471	17,018	18,720	20,592
13%	24%	% of Income	24%	24%	24%	24%	24%
34,083	35,669	Net Income	42,924	49,363	54,299	59,729	65,702
22%	18%	% of Sales	19%	19%	19%	19%	19%
34,549	30,214	Capital Expenditures	15,023	17,277	19,005	20,905	22,998
101%	85%	as % of Net Income	35%	35%	35%	35%	35%
9,853	14,231	Depreciation & Amortization	18,041	23,340	28,527	31,379	34,517
6%	7%	% of Sales	8%	9%	10%	10%	10%
		Increase in WC	2,941	3,383	2,593	2,853	3,133
		(10% of sales growth)					
		Cash Flow	43,000	52,043	61,228	67,351	74,086
		Terminal Value (estimated)					800,000
		Discount Factor (24%)	1.2400	1.5376	1.9068	2.3642	2.9318
		Discounted Cash Flow	34,677	33,847	32,113	28,488	25,271
		Present Value Of Cash Flow	154,366				
		P.V. Of Terminal Value	272,886				
		Total P.V.	427,283				

**ADAPTIVE MANAGEMENT
EXAMPLE OF A FEEDBACK CYCLE
FOR CEMENTOS DIAMANTE S.A.**

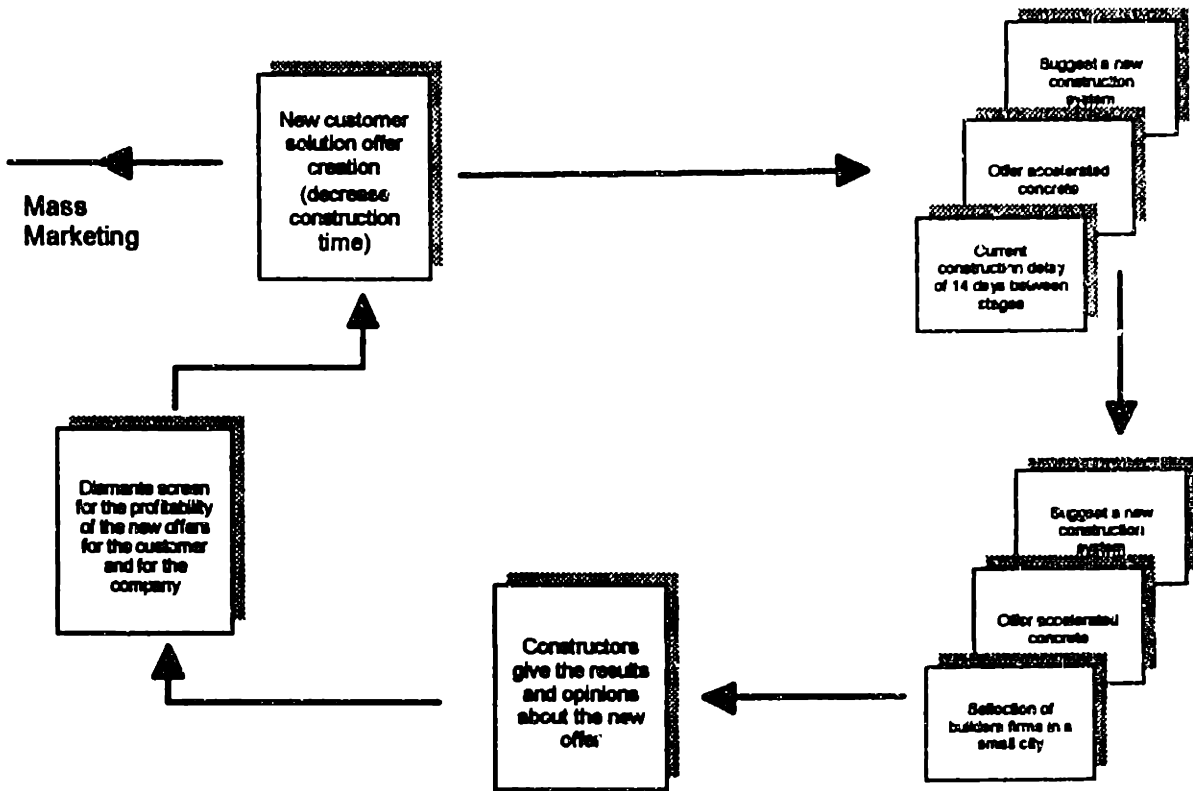


EXHIBIT No. 33

PERFORMANCE OBJECTIVES

Financial Perspective	Operational Perspective
<ol style="list-style-type: none">1. Improve costs to achieve world standards2. Increase the business profitability3. Increase the sales volume4. Maximization of cash availability5. Increase the financing profit6. The growth of the current and future markets	<ol style="list-style-type: none">1. Increase the installed capacity of production.2. Increase the productivity3. Increase the product quality4. Reduce the delivery time5. Reduce reprocessing
Customer Perspective	Innovation Perspective
<ol style="list-style-type: none">1. Achieve the customer satisfaction and retention2. Achieve an organizational customer oriented culture	<ol style="list-style-type: none">1. Achieve a training oriented organization2. Achieve the organizational transformation3. Develop new solutions for the customer4. Count on the best people in the organization5. Improve the labor environment

EXHIBIT No.34

PERFORMANCE OBJECTIVES MEASURES

Financial Perspective

- **Improve costs to achieve world standards**
 1. Operational Cost/Unit
 2. Fixed Costs/Unit
 3. Variable Cost/Unit
- **Increase the business profitability**
 1. Return on Assets
 2. Return on Costs
 3. Return on Equity
 4. Average Sale Price / Sale Price per Product
- **Increase the sales volume**
 1. Total sales by product.

- **Maximization of cash availability**
 1. Variation in account receivables' turnover
 2. Variation in Inventory's turnover
 3. Variation in accounts payable's turnover
 4. Percentage of accounts receivable with real guarantee
 5. The internal generation of cash's deviation
 6. Accounts receivable expired
- **Increase the financing profit**
 1. Earned interests / Average cash
- **The growth of the current and future markets**
 1. Variation in the market share
 2. Penetration in new geographies
 3. Bulk volume of product delivered / Total product delivered

PERFORMANCE OBJECTIVES MEASURES
Customer Perspective

- **Achieve the customer satisfaction and retention**
 1. Variation of the customers' satisfaction level for each "true moment".
 2. Percentage of claims.
 3. Average Sale Price / Sale Price per Product
 4. Non-fulfilment fines to Service Contracts.
 5. Over-fulfilment awards to Service Contracts
- **Achieve an organizational customer oriented culture**
 1. Number of lost businesses
 2. Percentage of customers' suggestions implemented
 3. Satisfaction level of Service Contracts

PERFORMANCE OBJECTIVES MEASURES
Operational Perspective

- Increase the installed capacity of production.
 1. Installed Units per Product
 2. Produced units vs. Installed units
- Increase the productivity
 1. Profits/ Number of employees (direct and contracted labor)
 2. Produced Units / Number of employees (direct and contracted labor)
- Increase the product quality
 1. Variation of the product quality standard
 2. Non-fulfilment of service contracts
 3. Customer satisfaction about the provided services.

- Reduce the delivery time
 1. Delivery time of the Total Customer Solution
 2. Customers' waiting time in the phone or personally
 3. Claims solution time
- Reduce reprocessing
 1. Percentage of waste
 2. Percentage of returns on sales
 3. Number of accounting adjustments

PERFORMANCE OBJECTIVES MEASURES
Innovation Perspective

- **Achieve a training oriented organization**
 1. Development of working teams (% of development)
 2. Implementation of the Training Needs Detection System (% of implementation)
- **Achieve the organizational transformation**
 1. Percentage of the project implementation
- **Develop new solutions for the customer**
 1. Number of new solutions sold
 2. New uses developed of the current products
 3. Number of new ideas implemented

- **Count on the best people in the organization**
 1. Covered percentage over the training Gap.
 2. Personal capacities variation of the company vs. its competitors' and labor markets
- **Improve the labor environment**
 1. Variation in labor turnover
 2. Labor environment index (internal studies)
 3. Number of absences

EXHIBIT No. 38

ESTIMATED SAVINGS DIFFERENCE FOR CUSTOMERS IF THEY CHOOSE DIAMANTE'S OFFER (U\$/TON)

DESCRIPTION	ESTIMATED PRICES IF CUSTOMERS DO NOT CHOOSE DIAMANTE'S OFFER (1995)	ESTIMATED COSTS IF CUSTOMERS DO CHOOSE DIAMANTE'S OFFER	ESTIMATED SAVINGS FOR THE CUSTOMER	ESTIMATED ADDITIONAL SAVINGS FOR THE COMPANY	% OF TOTAL OPERATING PROFITS BY PRODUCT FOR DIAMANTE	ASSUMPTIONS.
Cement	100	95	5	20	40	Both save because of elimination of the distribution channels (see exhibit No.2).
Concrete	40	30	10	4	15	Customer's savings: 80% of trouble fixing cost, reduction of construction time by 15%. Diamante's savings: The concrete has cement which has the above distribution and packing.
Sand	12.5	10	2.5	0	20	Discounts per volume could be more than 10%.
Gravel	10	8	2	0	20	Discounts per volume could be more than 10%.
Bricks	80	81	9	0	0	Discounts per volume could be more than 10%.
Figured Steel	400	340	60	0	0	Discounts per volume could be more than 10%. Also savings in waste and lost material
Wood	20	18	2	0	0	Discounts per volume could be more than 10%.
Mortars	35	25	10	0	10	Less mixing labor cost, less handling waste and lost material, save 11% (historically)
Total Product Package	707.5	607	100.5	24	-	
Average Cost Of Transportation To Customer Piece	15	20	(5)	5	3	The cost of the round trip would be slightly more for the customer.
Cost of back load trip (going back empty)	10	0	10	15	3	The service of the Transportation Company will take care of finding back-haul loads required to avoid trucks returning empty. No cost for the customer.
Cost of logistic information package	35	15	20	10	-	Using this package, the customer would reduce product logistic labor, use the system for other products handling, accounts payable handling including product, transportation and financing.
Total Logistic Package	60	38	28	30	-	
Cost of Financing Package	3.3%/m	2.6%/m	30	10	4	The Financing Company would use a modern financial mechanism called "acceptation bancaria" to raise cheaper money in the financial market. The customer would also finance other products to avoid halting construction for lack of resources.
Total estimated using all offered packages	847.5	682	155.5	64	-	
Customer Switching Cost			18.3%			The switching cost for the customer would be initially this percentage. The final bundle price strategy would be established by the company when it has the customer preferences information that is not available at this step of the study.