

CONCRETO CUADRAS SA de CV
Managua, Nicaragua
TEACHING NOTE

Case Description

Concreto Cuadras SA de CV is a two-and-one-half-year-old concrete construction company located in Managua, Nicaragua. The case is set about six months before the November 2001 elections, the outcome of which will have important consequences for Nicaragua's economy. Notwithstanding the close election contest that has already had a deleterious impact on business, Sergio Cuadras is facing a number of important issues that are affecting his nascent company. Specifically, Cuadras needs to address the personnel challenges that have plagued the firm since its inception and determine what steps he can take to more effectively move his company forward. Cuadras also has the option of abandoning his business altogether by selling it and returning to the United States where he has an attractive job opportunity.

Purpose of the Case

This case is designed to provide students with a glimpse of the business environment that entrepreneurs face in developing countries, especially in nations without deeply institutionalized political or economic systems. The case also brings to light some of the operating challenges they face in such countries as well as the strategies they can pursue. The case requires the reader to consider traditional and non-traditional approaches to addressing problems or exploiting opportunities in the marketplace. The case is appropriate for courses in Entrepreneurship, Strategy and International Management.

Update - May 2002 Elections

- Although the election contest remained close up until the end, Enrique Bolaños won the Presidency convincingly. Bolaños almost certainly benefited from the withdrawal of the third party candidate as well as the remarkable public support from the United States Government.
- While the election of Bolaños was instantly followed by several pledges from foreign companies to invest millions of dollars in Nicaragua, some analysts believe that because ex-President Alemán would be serving as the equivalent of Speaker of the House in the legislative branch, Bolaños' efforts to implement much needed reforms might be slowed.
- In March of 2002, a government prosecutor announced plans to file formal corruption charges against Alemán.

Study Questions

- 1. What steps can Sergio take to improve the visibility of his firm?**

C²'s promotion was primarily limited to signage on active project sites and advertisements in a national newspaper. As mentioned in the case, the key to increasing the firm's exposure is to get more eyeballs on his projects.

One way to make it easier for potential clients to view his projects would be to develop a website that could essentially serve as a photo album. Such a mechanism would allow clients who noticed C² advertising to easily preview more of the firm's work at home. It would also provide an easier way for satisfied clients to provide referral information. While the case does not discuss internet penetration levels in Nicaragua (which are not particularly high), it is important to keep in mind that the average contract for residential customers is \$4,000. From Exhibit 2, one sees that the per capita GDP in current dollars is \$466, indicating that only a small percentage of the population would be able to afford C² projects. In Nicaragua and many developing countries, internet access is fairly common among the more affluent segment of the population. Similarly, institutional decision makers for corporations, governments, or non-governmental organizations often have internet access at their offices.

C² could also endeavor to secure some high profile building projects, such as central government buildings and highly promoted tourism hotels, so that more people will see and appreciate their work. That way the beneficiaries of his work would also be a wider cross-section of society, not just the wealthy living behind cement fences.

2. What can Sergio do to put himself in a better position to take advantage of the opportunities in the low cost housing market?

As the case discussed, low cost housing projects would be financed with public monies from the Nicaraguan government and international aid organizations, and local municipalities were also expected to have significant input into the planning process. Given that there are three principal actors in a housing project (national government, international aid groups, and local municipalities), the reader should recommend whom Sergio should approach and why. Sergio's father was a well-connected businessman who served as the company representative. He could form relationships with municipal authorities to put C² in a better position to win contracts. A housing project for which the mayor can take credit is politically very helpful. While approaching the national or international organizations is certainly possible, they are much more bureaucratic based on size alone and they juggle multiple projects, so it is more difficult to arrange meaningful discussions with decision makers.

As mentioned in this case, entering this business requires an additional capital investment of about \$125,000 and this work might prevent taking on other large contracts with real estate developers. Hence Sergio and his father may have to make a strategic choice as to whether this will be the thrust of their activities going forward.

3. What can Sergio do to address some of the personnel challenges faced by Concreto Cuadras?

While there is no right answer to this question, there are some steps that Sergio might take to lower staff turnover and increase employee loyalty. For instance, C² could create a bonus plan that would reward employees based on business performance. If materials were stolen, funds held for bonuses would be tapped to replace what was missing before bonus payments were distributed. If Sergio were able to identify strong performers, he could reward them with non-cash benefits, such as employer-paid training or additional vacation days. The idea here would be to reward deserving employees in hopes that their behavior would be emulated by others.

4. What does Concreto Cuadras's cash flow look like? How much does Sergio make?

Here the students will need to go beyond reported financial statements and focus on some financial facts presented in the case. They can assume that tax avoidance strategies used by informal companies are also available to other firms. This is an important lesson for U.S. business students who might seek business relationships with overseas partners.

5. If you were Sergio, would you sell the business? Why or why not?

In order to answer this question, students will need to consider a number of issues, including the opportunities the firm has in the local market, the risk associated with Ortega's possible win in the November election, and Sergio's desire to work in and rebuild his native country. Including the loan and his father's investment, Sergio has put in about \$150,000 into the business thus far over the past two and a half years. Selling it for \$300,000 (\$25,000 monthly sales x 12) is a reasonable target. It is unclear whether he could have obtained that amount in June 2001 because of the risk of an Ortega victory.

Update - Concreto Cuadras

- Sergio decided to remain in Nicaragua.
- Despite securing the large contract in June 2001, sales as of yearend 2001 were far below the \$40,000 per month level achieved in 2000.
- Through April 2002, monthly sales figures surpassed 2001 levels but still fell below levels of 2000. Negotiations were underway for a contract worth \$100,000 (which would be the company's largest to-date), but no deal had yet been agreed.
- In 2004, Sergio sold 50% of his firm to a one of the larger construction companies in Nicaragua. He is extremely busy with more work than he could handle.