

Cross-Border M&As, Internationalization and Firm Performance: Evidence from the World's Largest Bakery Business Group.

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Keywords: Firm Performance, Internationalization Strategy, Bakery Industry

1. Introduction

In recent years scholars have been dedicating efforts to shed light on the determinants and motivations for Multinational Enterprises (MNEs) to internationalize by acquiring companies abroad -the so-called cross-border merger and acquisitions (Aybar & Ficici, 2009). Theoretical perspectives and empirical evidence on cross-border M&As suggest that what motives an MNE seeking to acquire a company abroad can be classified into three broad perspectives: 1) cross-border M&As as a way of entry into a foreign market, 2) as a dynamic learning process of a foreign culture, and 3) as a value-creating strategy (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). In an aim to contribute to this line of research, and more specifically to the later (number 3) classification, this paper describes the internationalization (and growth) process of the world's largest bakery firm (*Grupo Bimbo*) concerning the acquisitions made abroad, compared to acquisitions made in the home country. Additionally,

An overview on Grupo Bimbo

Grupo Bimbo (Bimbo), now the largest baking company in the world, was originated in Mexico City in 1945, founded by second-generation immigrants from the Catalonian region of Spain, that made of Mexico their new home, bringing with them the knowhow of bakeries.¹ Bimbo produces, distributes and sales a diverse variety of bakeries such as sliced bread, buns, cookies, snack cakes, muffins, bagels, salty snacks, tortillas and confectioneries, among other foods and snacks. Seventy-two years from its creation,

¹ The Servitje family immigrated from Spain to Mexico and founded a bakery shop called *El Molino* in 1928. At the beginning of 1940's, the elder son of the Servitje family (Lorenzo Servitje), who was born in Mexico, detected the necessity of producing white sliced bread (as sandwiches had started to be popularized in Mexico) so he, along with his cousin and his brother-in-law, imported machinery from the United States to produce white sliced bread and founded what is now Grupo Bimbo. He was 27 years old at that time.

Grupo Bimbo has expanded its operations into 32 countries in the Americas (Latin America, USA and Canada), Europe, Asia and Africa, possessing a nearly 3.2 percent market share of the world's 415 billion USD baking industry.² The company has presented a sustained growth rate in sales (revenues) of 11.1 percent on average per year since 1990, gradually driven more prominently from sales generated by its subsidiaries abroad (foreign revenues). Headquartered in Mexico City, Grupo Bimbo owns and operates 196 production plants, it has more than 3 million of points of sale and employs more than 138,000 people around the globe, as of December 31, 2017.³

The Internationalization Process of Grupo Bimbo

After consolidating the domestic bread market from 1945 to the early 1980's, and gaining enough prestige and size, Grupo Bimbo is listed in the Mexican Stock Exchange in 1980 (trading 15 percent of its stock) and starts exporting from Mexico to the United States in 1984. In 1987 the company opens its own offices and distribution routes to sell bread in Los Angeles (California) and in Houston (Texas), both states with a large Hispanic population.⁴ Then a production plant was launched in Guatemala (organic growth), near Mexico's south frontier in 1989. As a consequence of this internationalization strategy, an organizational restructuring is required and a new geographic division, Bimbo Central Latin America, is created. Two years later, the expansion continued to South America launching production plants in Argentina and Chile (both organic growth).⁵ In 1997, with the appointment of the founder's youngest son, Daniel Servitje, as new CEO, the company starts an aggressive strategy of internationalization through a series of cross-border acquisitions.⁶ In 1998, having three production facilities in the United States, after the acquisition of *Mrs. Bairds Bread, Inc.*, a Texas-based bread factory, Bimbo Bakeries USA was incorporated,

² IBIS World Global Bakery Goods Manufacturing Report, August 2016; Grupo Bimbo Annual Report 2017. Grupo Bimbo. 2017. Grupo Bimbo Integrated Annual Report: 1-101, IBISWorld. 2016. Global Bakery Goods Manufacturing: Market Research Report.

The internationalization of GB began, though, in 1984 with exports to the USA followed by the launch of a production plant in Guatemala. See further in the text.

³ Grupo Bimbo Annual Report 2017.

⁴ In 1984 Grupo Bimbo, with the funds obtained from the stock market, bought the subsidiaries in Mexico of an American competitor, *Wonder Bread*, a step towards domestic industry consolidation.

⁵ At this point, Grupo Bimbo has diversified within the food industry in Mexico, having the divisions of: 1) bakeries (main division); 2) candies and confectionaries; 3) potato chips; 4) wheat and corn *tortillas* (unleavened flatbread, made from powdered hominy); and 5) cooked meals (sandwiches and *burritos*). However, the international expansion of Grupo Bimbo has been solely within the bakeries division (mainly sliced bread, buns, muffins, cakes and sweet bakeries).

⁶ Daniel Servitje is also chairman of the board of directors since 2013. He got involved in the family company when he was 16 years old (he is currently 59 years old), and since then has served in various roles along the whole company. He holds an MBA from Stanford University.

consolidating the revenues of Grupo Bimbo in the USA and becoming the North America Division of the group. Since 1998 the group has expanded internationally by acquiring at least one company almost every year, consolidating and becoming the major player in the bread industry in the USA and Latin America. The company entered Asian markets by acquiring *Panrico*, the Chinese operations of a Spanish-based company in 2006; Europe in 2011 with the acquisition of Bimbo Iberia⁷ (Spain and Portugal); East Asia and Africa by acquiring *Ready Roti* and *Grupo Adghal* in India and Morocco, respectively, both in 2017. Since 1971, Grupo Bimbo has acquired 41 companies: 10 in Mexico (home country), 13 in the rest of Latin America, 7 in the USA, 2 in Canada, 6 in Europe (Spain, Portugal and UK), 2 in Asia (China and India) and 1 in Africa (Morocco). Most of the acquisitions (90.2%) were made since the year 2000.

The impact of Cross-border acquisitions in Grupo Bimbo's performance

In order to have an insight into the impact of acquisitions on firm's performance (or in this case, the overall business group performance), firm microdata from 1990 to 2016 was collected from several sources including companies' annual reports, stock exchange (BMV) databases, companies' web pages, newspapers and financial magazines. We tested the effect of acquisitions globally and by region on overall consolidated firm performance using 2-tailed Pearson correlations and several models were created. We took as Firm (or better said, business group) performance (dependent variable) the firm profitability in the form of *Return on sales* (ROS), *Return on Assets* (ROA), *Return on Equity* (ROE), and *Stock Price Returns*.⁸ Additionally, *Sales Growth* and *Profits Growth* rates were used as well. As independent variables we used the *Number of Acquisitions* globally and by region (dummy variables for Mexico, Latin America, USA, EU, and Asia) coped with acquisitions *Deal Value*, *Assets Growth* and *Market-Capitalization Growth* rates.

Findings and Concluding remarks:

Grupo Bimbo choses to combine organic growth with a series of acquisitions to expand internationally in countries of short cultural distance, namely Latin America, while it

⁷ Bimbo Iberia was formed independently in 1964 by one of the original founders of Grupo Bimbo that chose to return to Spain and start the company on his own. Later on, in 1978 it was acquired by the USA-based *Sara Lee* until it was (re) acquired by Grupo Bimbo in 2011.

⁸ I am aware that the overall (consolidated) group performance depends on the aggregate of various firm and country specific (individual host country) factors, a fact that could be considered as a limitation of this study. However, robust correlations among variables were founded.

relies only in acquisitions in countries (or regions) where the cultural distance is significant, namely Europe, Asia and Africa. As it can be expected, when entered the United States Grupo Bimbo concentrated its efforts (in the beginning) in states with a high rate of Hispanic population (Texas and California), where the consumer's preferences are similar to those in the home country.

Regarding the result of Grupo Bimbo's internationalization strategy, through cross-border acquisitions, we found that: 1) the number of acquisitions is positively related to profits (.623**), return on equity (.451*) and foreign sales ratio (.385*); foreign sales is strongly related to the overall increment in sales (.924**) and profits (9.08**); Foreign acquisitions are positively correlated with domestic sales as well. A possible explanation is that, beyond matters regarding scale, the access to foreign financial markets, enhancing technology and logistics globally and so on, by acquiring companies abroad Grupo Bimbo indirectly relaxes competitive pressures and allows itself a better position at home as well.

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