
Analysis of the internationalization process in an emerging market company: The case of BACHOCO

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The agricultural sector in Mexico is a sub-study area. The objective of this work is to describe the internationalization process of Industrias BACHOCO (BACHOCO), a leading company in the Mexican poultry sector. In order to achieve this objective, a case study was carried out on the internationalization process that the company followed, using the classical theories that explain why companies expand beyond their borders: the eclectic paradigm and the Uppsala model. Main results suggest that BACHOCO is a company that fits more appropriately the Uppsala model, as its internationalization has been gradual and sequential, however, although to a lesser extent it has some traits of the Eclectic Paradigm, proposed by Dunning. Additionally, BACHOCO is a company that does not have a high degree of internationalization yet.

Keywords: BACHOCO, Internationalization, Poultry Sector, Exports, Acquisition

Introduction

The objective of this paper is to describe the internationalization process of Industrias BACHOCO (BACHOCO), a leading company in the Mexican poultry market. The presence of companies from emerging economies in international markets has increased in recent years (Zavaleta-Vazquez & Wise-Lozano, 2016). In this tenor, large companies in the agricultural sector start playing different roles in different fields.

The poultry sector is one of the most important food sectors of the country, since the chicken and its derivatives are one of the main foods in Mexico. In this context, this sector presents a particular dynamism since it is controlled by big companies like BACHOCO.

In the case of Mexico, the agricultural sector is associated with isolated and underdeveloped small producers (Uribe-Reyes, 2014; Hernández-Trujillo & Barrón-Pérez, 2013). On the contrary, there are companies that have an important leadership in the country, even with operations outside Mexico, one of them is BACHOCO, which is one of the main poultry companies in the country.

Although the literature shows studies on companies from emerging economies (Castro-Olaya, Castro-Olaya & Gonzalez-Perez, 2015 Cuervo-Cazurra, 2008). The presence of studies in the agricultural sector is scarce. In addition, little has been studied about the internationalization patterns that these companies have followed; therefore, the main objective of this work is to describe the process of internationalization that BACHOCO has followed in its incursion into international markets, to this end, the theories of the eclectic paradigm and the Uppsala model will be applied.

The most important aspects of this company are analyzed below, and why, although not internationally known, it is very important within the national poultry industry. Besides being a company very well valued by financial experts of the country. Likewise, the main objective of this paper is to describe the internationalization process of BACHOCO .

The rest of this case study will be structured as follows, first a company overview of BACHOCO is presented, followed by the main theories that support this study, which are presented as the Uppsala model and the Eclectic Paradigm. Finally, the results obtained are analyzed and the conclusions presented.

Company Overview

BACHOCO emerged during the boom of poultry activity strongly promoted by the State, through the poultry repopulation campaign of President Adolfo Ruiz Cortines and the local company Mezquital del Oro, representative in Sonora of the main American poultry laboratories of the time (Hernández-Moreno & Vázquez-Ruiz, 2009).

The brothers Javier, Alfonso and Juan Enrique Robinson Bours founded BACHOCO in 1952 in Ciudad Obregón, Sonora in the northwest of the country. In its beginnings, it had 1000 birds, and it was on the business of commercializing egg. Subsequently, 11 years later it began to expand in Navojoa, Sonora; Los Mochis and Culiacán, Sinaloa devoting mainly to the commercialization of pork and chicken (BACHOCO, 2017).

In 1974, the company began another important expansion process: it started operations in the State of Guanajuato. The objective of this step is to develop a strategy in order to enter more strongly into the market of Mexico City, the largest in the country (Arias-Rodríguez, 2010).

In 1994, the Robinson Bours family leaves the management of the company creating a board of directors. Also in 1997, the company started quoting on the stock exchange, specifically in the Mexican Stock Exchange and the New York Stock Exchange (Arias-Rodríguez, 2010). An important event in the company was in 2011 when it began its process of internationalization by exporting to the United States. Currently BACHOCO, which is a holding company dedicated, through its subsidiaries, to the production, processing and marketing of poultry products, it is made up of around 25,000 employees (Annual Report, 2016).



Figure 1. Geographical Location of BACHOCO
Source: Opporrttime, 2016

As shown in Figure 1, it also has a corporate presence in 17 States of Mexico and in the State of Arkansas, in the United States. This distribution is divided into 1000 farms, 10 processing plants, 7 packing plants, 20 feed plants, 25 incubators and 66 distribution centers (Annual Report, 2016).

It has four main product lines: chicken (85%), egg (5%), food (5%) and others (5%), which has a total of 25,725 employees in Mexico (Annual Report, 2016). It is important to note that the Mexican poultry market is concentrated only on three companies: BACHOCO, Pilgrim's Pride and Tyson. Out of the 57%, BACHOCO owns 32% of the market (Ruíz-Serrano, 2013), and is the only 100% Mexican company.

The production of BACHOCO is based on a vertically integrated system, which brings as a benefit the organization's greater capacity to control access to raw materials of better quality and cost (The Economist, 2009). Annual sales in 2016 amounted to \$ 52,020.3 million pesos, with an increase of 12.5% over 2015 (Annual Report, 2016).

In addition to its work structure, this company has high levels of organization because it has farms strategically located throughout the country, from there, the product is sent to a processing plant or a posture farm and distributed, everything is under its own scheme and ownership, it does not need third parties to carry out its production process.

Literature Review

Some scholars have tried to explain how and why the firms go abroad. In this regard, this section is focused in explain the main internationalization theories, in order to determine which is more suitable for this case, and support to achieve the goal of this research. The most important theories that are addressed are: Eclectic Paradigm and Uppsala Model.

John H. Dunning has contributed with the Eclectic Paradigm Theory, also known as the OLI theory. The “OLI” name comes from the three most important factors which determine the international activities of multinational companies (Eden & Dai, 2010). Moreover, (Rugman, 2010) explains that in order to develop and grow in the globalized market, in Dunning’s theory, the companies have to have an ownership advantage, a location advantage, and an internationalization advantage. This theory provides a framework for all companies that internationalize. The companies must ensure these advantages are being taken to determine if it is beneficial for them to pursue a foreign direct investment (Dunning, 1988).

According to (Eden & Dai, 2010), Dunning’s theory came from the question “why do firms invest overseas, or more generally, what determines the amount and composition of international production?”. Eclectic Paradigm is founded on the assumption that companies will only go only do transactions in the international market when those carry lower costs than their internal ones. The main purpose of this theory is to determine if a particular internationalization decision provides to a company more value than other choices available.

The second theory is best known as “Uppsala Model”, developed in the Uppsala University in Sweden. This was published for the first time in 1977. (Alserus & Tykesson, 2011). As described by (Gustafsson & Zasada, 2011), this model was considered as one of the primary stage models of internationalization in the modern world and was developed by the Swedish investigators Johanson and Vahlne (1977).

The main idea of this model is that a company would gradually increase its committed resources to a particular country as it gains experience of the activities performed in that market. Uppsala Model is an internationalization model which relies on learning and acquires knowledge (Danciu, 2012). This theory assumes that the lack of knowledge about the internationalization process and international market is important for its

success abroad. The more knowledge and expertise a company acquires; the more obstacles can be surpassed, which means that companies have to develop both in their inside organization, as well as updating their businesses processes with third parties.

The Uppsala model has been updated during the last years. Johanson and Vahlne propose four stages that better explain how is that the learning opportunities affect the environment of the company. The four stages consist in: (1) the knowledge and opportunities the company can detect in the international environment, (2) the relationship commitment decisions, (3) the learning, creating and test-building, and finally (4) achieving the acquisition of a network position (Alserus & Tykesson, 2011). The network position was one of the latest actualization to this model in the past years. The reason is due to the increasing globalization and new communication and technology information. Nowadays, companies have to learn and adapt to this new method of doing business.

Methodology

In order to reach the aim of this research , a case method study was applied. Yin (2009) suggest an explanatory approach. This approach try to establish a connection between the internationalization process chosen by the companies and the results that they have gotten from it. The main objective will be deeply describe the internationalization patterns of BACHOCO .

The case study method as a valuable research tool. Its greatest strength lies in the fact that it measures and records the behavior of the people involved in the phenomenon studied. While quantitative methods only focus on verbal information obtained through questionnaire surveys (Yin, 2009). In addition, in the case study method data can be obtained from a variety of sources; that is, documents, file records, direct observation, observation of participants and physical installations or objects (Martínez-Carazo, 2006).

Regarding their purpose, the investigations carried out through the case study method can be: descriptive, if the aim is to identify and describe the different factors that influence the phenomenon studied, and exploratory, if through the same factors it is aimed to achieve a rapprochement between the theories inscribed in the theoretical framework and the reality object of study.

Likewise, the data of this research was gathered of secondary sources such as: cases of studies, newspaper, specialized web pages and the corporate web pages. Afterwards this information was analyzed in order to obtain the main findings of this research and can fulfill the aim of this research.

Information Analysis

Table 1: Internationalization patterns of Bachoco

| Year | Entry Mode | Countries | Company |
|-------------|-------------------|---------------------------------|--|
| 2017 | Exports | Egypt | N/A |
| 2017 | Exports | Emirates Arab United | N/A |
| 2017 | Exports | Vietnam, South Korea, Hong Kong | Exports through its subsidiaries in USA. |
| 2017 | Exports | Russia | Exports through its subsidiaries in USA. |
| 2016 | Acquisition | USA, Oklahoma | Fully Cooked |
| 2015 | Acquisition | USA, Georgia | Morris Hatchery |
| 2011 | Acquisition | USA, Arkansas | OK Industries |
| 2010 | Exports | Japan | N/A |

Source: Own elaboration, with data of several cases and reports.

Table 1 shows the main internationalization patterns of BACHOCO. Its first foray into the international market is in 2011 with the acquisition of OK Industries, located in the State of Arkansas in the US. Previously, the company's operations had focused on strengthening its position in the Mexican market.

Subsequently, in 2015 and 2016 it makes the acquisitions of two companies in the US. In both cases, it sought to strengthen its growth strategy, supported by its significant presence in the Mexican market. The results of these acquisitions have generated significant benefits for BACHOCO. In the year 2015, sales in the US increased by 1.4% compared to

the year 2014 (Ruíz-Serrano, 2013). In addition, the company has improved its position within the main poultry companies in the US market.

Also, the patterns of internationalization that BACHOCO has followed have been business acquisitions and exports. In the case of acquisitions BACHOCO has focused on acquiring companies with financial or operational problems and uses them to integrate them into their supply chains. On the other hand, in the case of exports during 2017 BACHOCO has tried to diversify its markets by entering new markets in Africa (Egypt), the Middle East (United Arab Emirates) and South-East Asia (Duarte, 2017).

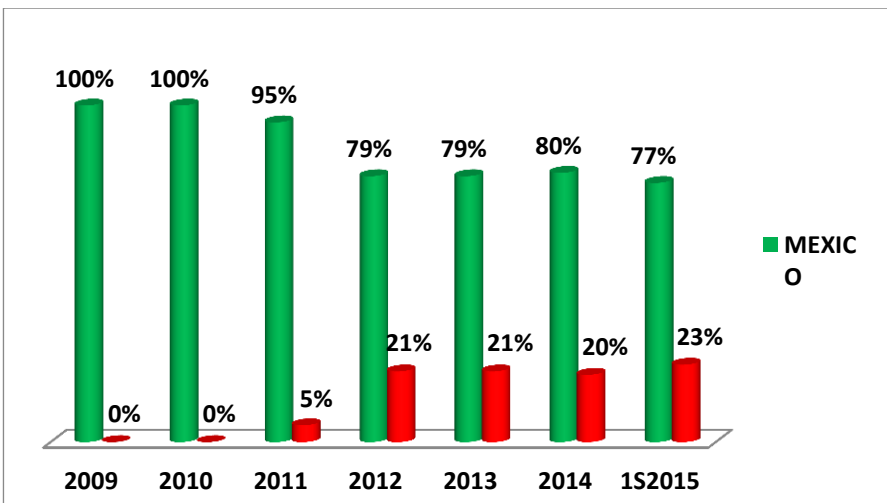


Figure 2: Percentage of local and abroad sales.

Source: Own elaboration.

Figure 2 shows that in recent years there has been a substantial increase in company sales of almost 100% in 2014. As of 2011, the company began its internationalization process in the United States market, which has increased year by year. Through its acquisitions in the United States, the company has operations in Mexico and the United States, accounting for 80% and 20% respectively. This indicates that this company allocates a high percentage of its production to the Mexican market where it is the leader in the market. In addition, although exports do not yet represent the majority of their revenues, BACHOCO has first considered the consolidation of the domestic market, but this pattern shows an upward trend.

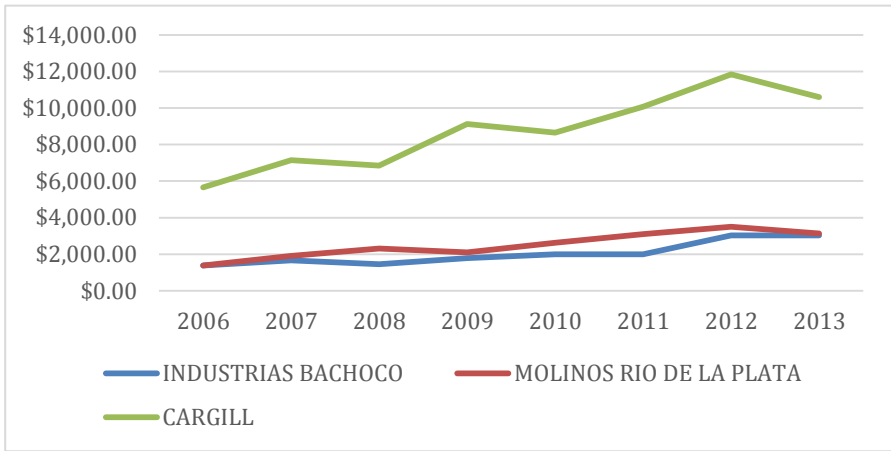


Figure 3: Comparative of sales.

Source: Own elaboration, with data of "The 500 largest companies in Latin America".

Figure 3 presents a comparison of sales of three agroindustrial companies in Latin America: Molinos Rio de la Plata (Argentina), Cargill (Brazil) and BACHOCO (Mexico). As can be seen, there is a great difference between Cargill, BACHOCO and Molinos Rio de la Plata. It is interesting to note that although the three companies are from the agroindustrial sector, they offer different products, in addition, CARGILL Brazil is a subsidiary of a large multinational of the same sector, besides, it operates in the market with greater number of population.

Conclusions

The objective of this work is to describe the internationalization process of BACHOCO. In this order of ideas, it was identified that the company is the main producer within the poultry industry in Mexico, because its sales have increased in recent years (Ruíz-Serrano, 2013, Arias-Rodríguez, 2010). In addition, this leadership has achieved this despite the pressures of trade openness and competition in the Mexican market of two foreign companies. The internationalization process of the company has followed a pattern, exposed by the Uppsala model. This process has been gradual and sequential (Johanson & Valhne, 1977). For example, it began its internationalization process by exporting to the United States in 2011, and as a result, it acquired some companies in that country. These findings confirm the assumptions of

the Uppsala Model where internationalization is a gradual and sequential process.

In addition, although BACHOCO presents an internationalization pattern that fits the Uppsala model, the company does not show a high degree of internationalization. For example, it exports only about 20% of its production, mainly to the EU. Additionally, it controls in the outside few assets, the companies Fully Cookek, OK Industries and Morris Hatchery. In addition, BACHOCO is a company with a slow internationalization process; it took 59 years (from 1952 to 2011) for the company to take its first steps abroad, through exports to the United States.

Regarding the Eclectic Paradigm (Dunning, 1977) the company presents some indications of this theory. Regarding Ownership, its brand is known in the market over others, and it has implemented various marketing strategies that have contributed to a better positioning of the company. The company also has distribution channels in its main international market which is the United States, in addition the company is established near its main suppliers, for example its central offices are in Celaya, Guanajuato in the center of the country, these facts give indications of the Location of their capabilities. Finally, in terms of internalization, the company has knowledge of the foreign market through exports that allowed it to increase its internationalization through acquisitions of other companies.

BACHOCO has also confirmed that it has sufficient production potential to intensify and increase its exports abroad. In fact, the company has plans to expand into Central America, using its operational capacity in the State of Yucatan (Wattagnet, 2015). In addition, poultry products are imprescindible in many parts of the world, this production capacity is given by competitive factors identified in the literature (Rubio- Bañon & Aragón-Sánchez, 2002). Likewise, the form of internationalization in which BACHOCO has tried to enter the American market is through the purchase of small companies, in order to be able to better position its brand in that country, and to be able to compete with the big multinationals of the sector like Cargill.

As a final conclusion BACHOCO is the leader in the Mexican market given its ability to manage its finances and human resources properly; however, the company has an area of important opportunity: increase its presence abroad through by building competitiveness (such as the distribution and quality) that allows them to compete successfully. In

addition, its internationalization process better fits the postulates of the Uppsala Model (Johanson & Valhne, 1977). However, it does present some clues to the three elements that make up the Eclectic Paradigm proposed by Dunning (1988).

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