

## **THE EXECUTION OF MERGERS AND ACQUISITIONS AS A STRATEGY FOR MEXICAN COMPANIES WITHIN THE GROWTH ACHIEVEMENT IN MAJOR WORLD RANKINGS**

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### **Abstract**

*Mergers and Acquisitions, M & As has become a trend for the growth of Mexican companies. Although the diverse, all companies seeking the ultimate goal of growth of the firm. Through the job description in the three largest companies in Mexico and the results we achieved demonstrate the profitability of this kind of strategic alliances and detected elements which may be useful for growing companies that are selecting the appropriate strategy to their resources and goals. This article aims to describe the execution of mergers and acquisitions as a strategy for Mexican companies best positioned within the major world rankings to achieve growth. The corporate strategy is critical to achieving the higher rank and must be set out clearly and according to their needs.*

**Keywords:** Corporate Strategy, Mergers and Acquisitions, Mexican leader.

**JEL:** L19, M10

### **INTRODUCTION**

Companies must give direction to the resources. They have to change their environment and absorb uncertainty in order to maximize their profits. There are different perspectives and strategy firms, according to their particular situation and the area of interference, they use one that most suits of them.

The strategies of Mexican companies tend to focus on the use of resources and capabilities to generate profit. But the results obtained by some of the strongest Mexican worldwide companies are the result of market development and practice of M & A, which are mostly related to areas of its core business.

There is no universal strategy that works for all organizations and generates the best profits. Company must also assess favorable and unfavorable conditions for implementation and most importantly, act on that strategy which is most appropriate and effective company in the search to achieve their goals.

There are a number of multinational companies originating from emerging economies, but there are few that generate a level of utility comparable to large multinationals in the developed economies.

## THEORETICAL FRAMEWORK

Strategic management is responsible for developing the knowledge in this era. From the study of the actions taken by companies for their growth and measuring the results obtained with the different perspectives that have been consolidated. From this we find that the organizational structure is the foundation for large businesses to achieve their goals, but there must be a record in its efforts to continue to achieve its objectives through the implementation of its corporate philosophy in the various processes that are performed. Corporate behavior is what really makes a company great and make it successful and internationally recognized.

We must understand the nature of the signatures; leaving conceive as seeing them as productive functions and structures of governance, in which economic goals are internal structures (Williamson, 2000). In pursuit of creating value firms have turned to new business models that have changed schemes and developed new strategic options, both in their local markets as its internationalization, strategic alliances are voluntary arrangements between firms to exchange or jointly develop products, technology or services are increasingly common, and the problem for those responsible for making decisions is to establish the appropriate changes to their specific structures.

The key is that organizations seeking returns must have a good understanding of the resources they acquire to maximize their profits. In recent years, emerging economies have reached a considerable level of development, foreign investment has greatly facilitated the growth of these economies through the strategies and policies have been established (Wright, 2005), not only as host economies capital but also through numerous international investment that you make on other economies around the world.

Strategic alliances are an alternative to the growth of organizations whether we speak of contractual alliances in which by signing a contract two of the undertakings, specific projects, joint marketing, research and development contracts or licenses and franchises. Or question of alliances based on the exchange of capital through: joint ventures, mergers or acquisitions. According to the desired degree of integration with the other hand, have the resources and reach goals they had set the strategy, the selection will depend on the type of alliance. With special emphasis on understanding the rules of the game on the market in which you want to venture and an analysis of the advantages and scope to be the alliance (Peng, 2006).

The goal of all business decisions is the highest possible value creation, and here you can establish whether a strategic decision, as it can be an alliance based in the capital, has the right motivation. The rationale for mergers and acquisitions (M & A) is that they must create the new company in the case of mergers or the signing buyer in the case of acquisitions, has a value greater than the sum of values that had the signatures independently before integration (Herrera Avendaño, 2001).

Some companies in Latin America (LA) have achieved little by little making its global market space, including several Mexican companies also achieved success at national level, also found in international markets through growth opportunities F & A, both public and parastatal companies in different countries.

According to the ranking of the magazine *América Economía*, of the 500 most important companies in AL, in 2009 Brazil was the country's 226 companies with more companies in the ranking, while only 119 signatures were from Mexico (Figure 1). Note that in 2002 Mexico had peaked in the 20-year history of this ranking, with 241 companies (*América Economía*, 2010).

Some of the major companies that lead this list have made F & A of other companies and this could be a cause of increased participation in international markets and their stay in the charts. There are several reasons to consider before establishing a strategy of this kind, although sometimes the reasons do not seem logical, the view of strategists usually yield good fruit in the medium term. Among the main reasons we can mention the interest of achieving increased revenues, reduced costs, gaining market power, integration with specialized companies in areas where the other is weak, eliminating a competitor, getting a raise certain types of resources, improving yields through new management, achieve tax benefits or a combination of resources to increase productivity (Mascarenhas, 2006).

In late 2009 and early 2010 the major Mexican companies dedicated to consolidate and integrate into their organization the various F & A conducted in early 2009, the global economic crisis affected the growth of companies, but most knew how to deal with the situation and move forward

to consolidate their resources. The strategy not only carried out in its own lines of business but also the incursion into areas outside their main economic activities. but in some way help them make a profit. A clear example of this was the purchase of 17% of the New York Times by the billionaire Carlos Slim, who despite having businesses in different economic sectors had not yet ventured in press (Buchanan, 2010).

In that sense, M & A has become a trend for the growth of Mexican companies, although this was not the only alternative strategy carried out by the firm and sometimes the companies selected were not the most appropriate in most cases we can see increases for firms that make us assume the effectiveness of F & A. Regardless of the reason that companies choose to implement this strategy, the results should be beneficial and be oriented growth of the firm considering the organizational team, without affecting the innovation and not follow the trend to acquire by purchase.

### **OBJECTIVE**

Based on the foregoing, setting a goal to describe the execution of mergers and acquisitions as a strategy for Mexican companies best positioned within the major world rankings to achieve growth. Mexican companies seeking development and media can find items for their own consolidation in the markets.

Of which raised the hypothesis of whether the major Mexican companies in their strategies have made M & A, if these have been within its sector and if they got support their growth.

### **METHODOLOGY**

The methodology developed will be first the selection and justification of Mexican companies which made the descriptive analysis of the implementation of F & A from determining what is your current place in the world rankings?, This analysis pointed out aspects main and a brief description of the strategy developed for each of the selected companies responding to the questions of what strategies are being implemented for growth? And what are the benefits of M & A? then be presented general findings of the strategies carried out, based on what is the level of income and productivity achieved?, and finally identify elements to be considered by other organizations choice of M & A value creation and growth of their firms.

#### **Selection and justification of Mexican companies**

Different worldwide rankings to recognize the largest companies in the world by their level of income, profit margins, production capacities and other factors significantly outweigh the other organizations worldwide. Two of the most internationally recognized tabs are the FORBES and FORTUNE magazine, and journal Economics in Latin America.

From 2009 to date has remained constant the number of Mexican companies (18) in the 2000 world leading companies (Forbes Staff, 2011), while ranking in the magazine America Economía in a period of only seven years, from 2002 to 2009, the number of Mexican companies within the first 500 in TO 50% down (América Economía, 2010). From this we can conclude that a small number of Mexican organizations have consolidated their presence in international markets while other smaller companies have lost its position in international markets and their productivity has decreased significantly.

Moreover, when analyzing the situation of Brazilian companies, whose country was compared to Mexico early this century by its geographical location, economic conditions and growth potential, since both countries were seen as major economies region, we find that these companies generally have a better development. From the figure of 19 companies that appeared on the Forbes list in 2006, has grown to 37 companies in 2011 within the first 2000 worldwide (Forbes Staff, 2011) While in the region, by 2009 already had 226 companies in the ranking of America Economía magazine top 500 companies (América Economía, 2010).

Mexico is widely recognized in international markets, is the country with the largest number of international trade agreements, products and quality of its workforce have accepted worldwide and is a nation favored by their geographical position it occupies. For this and other issues is that it is difficult to understand why more companies do not have positioned in the world and what has relied on only a few companies have managed to gain a favored position as compared to other national firms, this concern arises to analyze and understand the strategy of these leaders and Mexican companies to make their activities serve as an example in the development of other large and medium enterprises.

Mexican companies included in Forbes' list of 2011 are shown in Table 1, among which are America Movil (# 88), Femsa (# 406) and Grupo Mexico (# 485) as the first three Mexican companies and they are the only Mexican in the top 500 worldwide in this ranking. Therefore be at these three firms in which to base the study to analyze their strategies, seen as the main cause of their achievements, and what subsequent to refer to them as we do with the term leading Mexican companies (EML).

### **BUSINESS ANALYSIS**

Below is a description of the situation of EML and a narrative of the main strategies of F & A who have developed, starting with the corporate Grupo Mexico ranks third, followed by analysis of FEMSA to conclude this section with the company America Movil.

#### Grupo Mexico.

Utilities 2010: 1.800 million dollars

Director: Larrea.

National companies that comprise: Minera Mexico, Southern Copper Corporation, Ferromex, Ferrosur, Intermodal, PEMSA, Mexico and Consutec Construction Company.

International companies owned: Americas Mining Corporation and ASARCO.

Grupo Mexico is the number one Mexican mining company and has the second largest copper reserves in the world, has operations in Mexico, Chile and Peru. It currently has 13 operating mines and 10 projects in operation.

Mexico Construction Company was the first of this group, created in 1942 soon becoming one of the main building of the country. For the year 1965, acquired 49% of ASARCO is a mining company based in Arizona and created ASARCO Mexicana, which in 1974 became Industrial Minera Mexico (IMMSA). To be listed on the Mexican stock exchange was created in 1978 Grupo Industrial Minera Mexico (GIMMEX) will be replaced by Grupo Mexico in 1994.

In 1997 buys 24% share of Union Miniere Acec the Cananea mine, and that same year, Grupo Mexico (74%) with ICA (13%) and Union-Pacific (13%) take on the granting of various lines of rail, creating the subsidiary Ferrocarril Mexicano purchase SA de CV (Ferromex). Soon Union-Pacific acquired the part of ICA.

Grupo Mexico acquired Asarco Incorporated in 1999, which controlled 54% of Souther Peru Copper Corporation and with this acquisition becomes the second company with the largest reserves of copper in the world. Later the company went through a phase of investment in infrastructure improvements at its mines and extraction was not until 2005 where he returned to participate in the market for corporate control, through the merger of Southern Peru Copper Corporation and Minera Mexico, Southern Copper Corporation transformed into and that Grupo Mexico's participation in the company grew to 75.1% (Grupo Mexico, 2011).

During the period from 2006 to 2010 the company went through a process of restructuring and reorganization of its business units and assets, channeling their income primarily in the modernization process, both in the extraction of minerals such as administrative control.

#### FEMSA

Utilities 2010: 3.300 MDD.

Director: José Antonio Fernández.

Companies that integrate national: Coca-Cola FEMSA and OXXO.

International companies owned: Heineken (20%).

FEMSA is a leading company engaged in the beverage industry, through Coca-Cola FEMSA, the largest independent bottler of Coca-Cola products in the world with presence in 9 countries of LA, is also involved in trade, operating OXXO chain of convenience stores larger (8.621 stores) and fastest growing in AL with facilities in Mexico and Colombia, and participates in the sale of beer, the second largest shareholder of Heineken, one of the leading brewers in the world with presence in over 70 countries. (Femsa, 2011)

Each business unit has this interesting aspect of corporate analysis, but in this article we only focus on the strategies undertaken by each of them in their process of growth through M & A.

OXXO opened a daily average of 3 stores in Mexico during 2010, the same year began operations in Colombia and now has eight stores, the company has a large potential for growth in the region, and all of its growth strategy has been made based on resources the firm already operates as a franchise that has not carried out and F & A to boost growth.

Coca-Cola FEMSA's bottler in Mexico that is born of the acquisition of the franchise in the year 1979, distributing its products in much of the country, in 1994 acquired 51% of the shares of Coca-Cola in Buenos Aires, Argentina and in 2002 announced the acquisition of Panamco, the largest bottler of AL at the time, from this point the company's growth was substantial and that the acquisition was another part of the territory of Mexico, the countries of Costa Rica, Colombia, Guatemala, Nicaragua, Panama and Venezuela, and some regions of Brazil, becoming the leader of al-bottling company.

The company decided to follow the line of drinks and when it was believed that the soft drink market share would be enough, the company surprised in 2007 with the acquisition of Jugos del Valle in Mexico and Brazil REMIL bottling in 2008, it grew participation in the Brazilian market, together with Mexico are the most attractive markets in Latin America.

Not all acquisitions must be of large international companies and the purchase in 2008 of the Water Company of Angels, Valley of Mexico, is proof of that since the acquisition was achieved with double the share of that market in the city. In 2009, FEMSA acquired the Brisa bottled water and in 2010 returned to surprise us with the purchase of the Dairy Industry Group Panamanian Company, which will enter the milk products is one of the most dynamic markets and value in the beverage industry. As mentioned in the introduction, firms not only do strategies of F & A, but also establish other strategic alliances and contractual in the case of FEMSA such implementations are common such as recently showed in a contract with HP for that will provide technology services for five years in the business unit, Coca Cola FEMSA who provide not only computer equipment but also focus information operations in South America and perform tests and evaluations to identify growth options the company (Hewlett Packard Development Company, 2011), arguably is a contract research and development specialists left to the management of information and FEMSA only cares to continue doing a good distribution of their products.

Beer is the oldest business unit of the company and its history goes back to its founding in 1890 under the name of Cerveceria Cuauhtemoc Mexico, will later be established firms that were born as part of domestic production of inputs in brewery that later would become self-sufficient and independent companies, which contribute in making the bottles, labels and bottle caps necessary for packaging beer.

In 1985 a merger between two of the largest breweries in Mexico, Cerveceria Cuauhtemoc Cerveceria Moctezuma, a case that serves to show that the strategy of M & A has been several years a good option for growing firms, with the merger the company not only expanded its product offering to the market and therefore they also managed to increase their participation. In 1994, partners with the Canadian brewer John Labatt Ltd., which buys 30% stake in the brewery and thus the company gets an increase in its share capital to tackle the country's economic crisis. Later in 2004 the share repurchase was sold to begin its expansion strategy internationally which shows us a clear example that M & A does not always mean total loss of corporate control and in many cases are a source of impetus for the development of the organization.

That same year, implement a trade agreement with Heineken to distribute the products in the U.S. territory, responsible for the distribution, promotion and sales, for the domestic market signed an agreement with Coors Brewing Company for the exclusive marketing Coors Light beer. During 2005 continued the strategy of Sleeman Breweries contractual alliances in Canada and Molson Coors in the UK, establishing them as strategic suppliers to market their products in these territories.

It was in 2006 when the firm makes first acquisition in its history the purchase of Brazilian brewer Kaiser, acquiring 68% of the shares and thus operate in two Latin American markets more attractive. In what was a considerable increase in revenue and a commercial boost with greater market share, through which has been pushing their products through the extensive distribution network operates.

The consolidation of Cervecería Cuauhtémoc Moctezuma led the company Heineken, who already owned the U.S. distribution, acquired in 2010 for signature by the exchange of 100% of its operations by 20% of the shares of Heineken, this acquisition was a of the most important of the year with the sale of the company FEMSA Brewery will focus more on growing its other business units (OXXO and Coca-Cola FEMSA) and participate in the administrative council of Heineken to care for the performance of the firm.

### America Movil

Utilities 2010: 7.300 MDD.

Director: Carlos Slim.

National companies that comprise: Telcel and Telmex.

International companies of their property: Telmex Internacional, Claro (15 countries: Argentina, Brazil, Chile, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Dominican Republic and Uruguay) Comcel (Colombia), Embratel (Brazil), Net (Brazil) and Tracfone (USA).

America Movil is not only a leader in the mobile telecommunications sector in Latin America operating in 18 countries, it is the fourth largest in the world in terms of proportionate subscribers and number one Mexican company by market value and income-rich.

Through the acquisition of several public companies and parastatals telephony has been consolidating its presence in the principal in the cell phone. Your participation in the cellular market in Mexico is 71%, 33% in Central America, Caribbean 43% and 9 countries in which it operates in South America all have a stake greater than 30% except for Chile where their participation is barely 22%. (America Movil, 2010)

"The acquisition by America Movil of its parent company, Carso Global Telecom (which controls Telefonos de Mexico or Telmex and Telmex International) was by far the largest merger in Latin America in 2010, valued at 33 billion dollars ". (Agree, 2011)

America Movil was born in 2001 when it separated from fixed telephony company TELMEX, and nine years of his division is now the purchaser of the company that was born, the case of telecommunications companies of Mr. Carlos Slim is full of examples successful mergers and acquisitions for 20 years in which through its consortium of Southwestern Bell Telecom acquired the state-owned Telmex, while in turn the company America Movil was acquiring various telephone companies in Latin America and step to form the signature course, trade name under which it operates in most countries.

The acquisition by America Movil of its sister companies Telmex and Carso Global Telecom International, will report that in 2010 represented 211.3 million wireless subscribers, 27.4 million fixed lines, 12 million fixed broadband connections and 8.6 million TV subscribers . The company also reported an outstanding financial performance with net profits rising contrary to its main rival Telefonica in the last year reported a decline in profits. (Datamonitor, 2010)

America Movil continues its strategy of M & A in LA countries, and the proof is the recent purchase of the company Digicel in early 2011 who operated in Honduras and El Salvador, users of the company will become part of CLARO.

The current government in Mexico has not allowed America Movil to sell packages of telephony, television and the Internet, which have proved very attractive for the income from them and from which only the big national broadcasters are benefiting. But America Movil continues to grow despite the hardships and will strengthen this marketing strategy in Colombia, where it already does and Brazil in which the fusion medium-term business that has begun. Therefore no surprise that eventually will achieve its mission to perform in Mexico.

The growth in demand for bandwidth and pay TV in Latin means the sustained growth of the company, which only have to overcome institutional constraints to maximize their profits, and even in this sense the strategy of mergers that has been done will be useful to market their services in countries like Brazil with barriers of entry into foreign ownership of telecom case for which the company has decided to increase its share of Net through its subsidiary Embratel.

### **EFFECTIVENESS OF MERGERS AND ACQUISITIONS**

The purchase of Asarco in 1956 makes clear that the use of M & A as a means for the development of the company is not a strategy that just being started, and is an example of the vision they have had the EML for several years.

M & As has become steadily more present and in the last 15 years has increased the tendency of local firms to make such alliances. Even in areas other than the main economic activity of the company, either in activities that have a relationship, as in the case of Grupo Mexico, which through Ferromex rail networks can transport material from mines ( Mascarenhas, 2006), or in

activities that are not related to its activity as for the purchase of Slim a percentage of the New York Times commented in the introduction to this article.

In the latest merger by Grupo Mexico to Southern Peru Copper Corporation, clearly identified as their main motivation access to more resources and greater expertise that contributed significantly to the growth of the firm and its consolidation, giving reason to the reasons cited for a F & A.

In the case of Grupo Mexico is clear that, thanks to M & A can gain access to the resources that became the second company with the largest copper reserve on the planet, which could hardly have been achieved through other means, but we cannot downplay made to other strategies, mainly in the processes of restructuring, as though in recent years has not made any acquisition revenues and profits increased significantly in the last year.

At Coca-Cola FEMSA's strategic alliances have been crucial since its inception through the acquisition of the concession for the distribution of Coca-Cola. Its main thrust of internationalization has been achieved through acquisitions, Coca-Cola first in Buenos Aires in 1994, in 2002 and finally in 2008 PANAMCO REMIL. It is clear that M & A are effective strategies to support access to international markets (Femsa, 2011).

Even in small markets an acquisition may represent a source of consolidation as the example of Los Angeles Water, or can also serve to diversify and increase the product line as was the case with the purchase of Del Valle and Dairy Industries Group.

The area brewery is not very different from Coca-Cola FEMSA and in this area we also find that growth has been sustained in practice M & A throughout its history, from the merger of Cervecería Cuauhtémoc Moctezuma Brewery to reduce and production costs and gain greater power in the domestic market, to then develop a series of agreements to distribute its products with different breweries worldwide in order to internationalize their brand, After Kaiser bought the company I represent an increase in AL.

Increased participation in AL, their rapid growth and income levels were reported in 2010 decisive for the Dutch brewer Heineken, who already was familiar with their products marketed in the United States was willing to hand over 20% of its shares return of all brewery operations (Buchanan, 2010).

The case of FEMSA shows that even within the same firm strategies in its business units are not the same and although M & A have been an important factor for the growth of its operations in two business units to OXXO have not been the growth medium, although this does not mean that if done would not succeed, perhaps for future growth would be predicted to get OXXO in the event that made M & A.

Although revenues declined FEMSA in the last year, as expected mainly by revenues from brewery failed to receive after the sale the profits and assets which increased due to continued growth, a result of their internationalization in its other two business units (Forbes Staff, 2011).

The company America Movil was from the beginning a successful business and began growing by leaps and bounds through the voracious acquisition of a large number of telephone companies in different markets of LA, which gradually consolidated their position as the company the continent's leading mobile growth projections and a substantial number of customers. But the determining factor of growth in recent years did so by buying the company Carso Global Telecom, which despite being the same owner does not mean you should not have the resources to acquire and thus establish his position far above its competitors (Agree, 2011).

With this acquisition the company managed to improve performance through new management and increased productivity through shared resources. In the case of the Brazilian market we find that M & A conducted achieved integration of telephone and television companies, achieving also prevent the entry barriers to foreign companies on television. A through M & A company America Movil has gained access to markets, competitors and has been removed has increased its presence in Latin by the large number of mobile phone users.

America Movil has income greater than twice those of FEMSA and Grupo Mexico together and last year were 50% higher than those achieved in the previous year (Forbes Staff, 2011). It has a considerably higher amount of assets to the rest of the EML and the resources to continue to give the talk of the coming years, and probably will be so for your next marketing packages that include

television services in Mexico which is not far from become a reality now and thanks to a cooperative alliance with Dish satellite television company, has partially offset the inability to provide the services themselves. So surely soon find out how to enter and possibly move to Televisa in the medium term.

## CONCLUSIONS

The EML has consolidated its place in the main rankings because of its strategic vision and outstanding performance compared to other firms, and their efforts are recognized worldwide, as mentioned in the beginning of this article are not unique strategies to achieve growth companies and many alternative firms, who based their resources attempting to find the most suitable for their own development.

In the analysis of companies is stated that M & A is a common strategy in organizations despite being of sectors and business activities very different, it is clear the importance that has occurred in recent years this type of strategic alliance as EML all have used at some stage as a means to grow and achieve their goals. Because of the variety among the reasons companies have obviously not been the same since we find cases that look from reduced costs and increased resources to improving the management and reduction of entry barriers, although to the above if it can be concluded that the implementation of the strategy has a tendency among the EML to be used to facilitate the internationalization of the firm and meets expectations in this regard as an effective tool in the process of incursion into new markets.

Growing companies need to analyze M & A as an attractive option for growth, regardless of the sector where they are and whatever economic activity they perform, trying to combine this strategy with others to maximize the performance of the firm as as mentioned from the beginning, no strategy is complete and the best results are obtained from the right combination. Using this type of partnership should be done by companies with an average degree of maturity and sufficient resources to operate efficiently to the party who performed the alliance, because otherwise result in detriment to the benefit of the parties involved.

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# APPENDIX TABELS

	COMPANY	RANKING
1	América Móvil	88
2	Femsa	406
3	Grupo México	485
4	Grupo Modelo	719
5	GFNorte	785
6	Cemex	810
7	Grupo Inbursa	864
8	Grupo Televisa	880
9	Grupo Bimbo	974
10	ALFA	1010
11	Industrias Peñoles	1077
12	Minera Frisco	1097
13	Fresnillo	1151
14	Grupo Carso	1256
15	El Puerto de Liverpool	1344
16	Soriana	1493
17	Grupo Elektra	1548
18	Kimberly-Clark de México	1926

TABLE 1. Fuente: (Forbes Staff, 2011).

Period	Company	Sales	Earnings	Assets
2011	América Móvil	49.2	7.3	69.7
	Femsa	13.7	3.3	18.1
	Grupo México	8.3	1.8	14.9
2010	América Móvil	30.22	5.4	34.7
	Femsa	15.08	0.76	16.07
	Grupo México	5.02	0.9	12.01
2009	América Móvil	25.01	4.35	31.64
	Femsa	12.16	0.49	13.27
	Grupo México	4.69	8.1	8.82

TABLE 2. Fuente: (Forbes Staff, 2011).

## GRAPHS

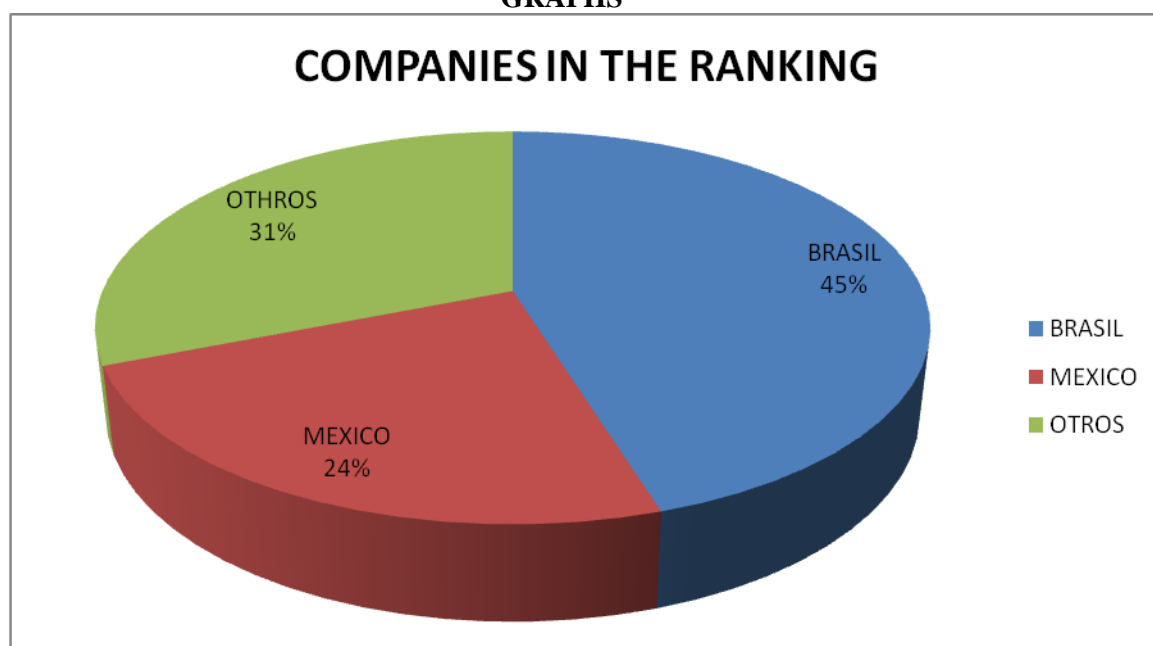


CHART 1. Source: (América Economía, 2010).

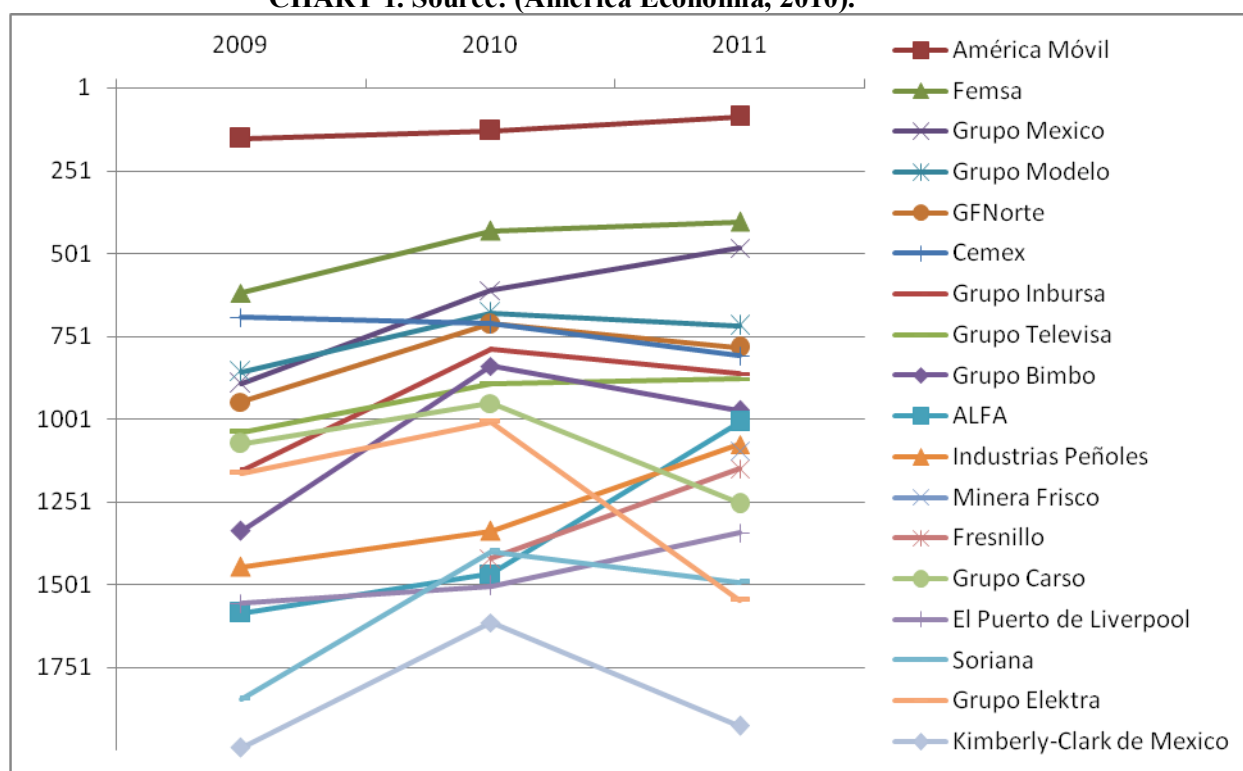


FIGURE 2. Source: (Forbes Staff, 2011)