

A STUDY ON THE CONTEMPORARY RISEN ISSUES IN THE MERGERS AND ACQUISITIONS: STRATEGY OF THE MEXICAN BUSINESS LEADERS

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Abstract

The corporate strategy is critical to achieving the goals of the firm and must be set out clearly and according to their needs. M & As have become a trend for the growth of Mexican companies, despite having diverse motivations through the description of their implementations in the three largest Mexican firms and the results we achieved demonstrate the effectiveness of this type strategic alliances and other useful items detected less consolidated companies.

Keywords: Business strategy, mergers and acquisitions, leading Mexican companies.

JEL: L19, M10.

1. 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 use one that most suits 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 companies worldwide are the result of market development and practice of mergers and acquisitions (M & A), which are mostly related to areas of its core business.

There is no universal strategy that works across organizations and generates the most money will also be assessed 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 worldwide there are few that generate a level of utility comparable to large multinationals in the developed economies.

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). Looking to create value firms have turned to new business models that have changed schemes and developed new options, strategic alliances are increasingly common, and the problem for decision makers 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 its usefulness. 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.

Strategic alliances are an alternative to the growth of organizations whether we speak of contractual partnerships or alliances with exchange of capital. According to the degree of

integration desired, have the resources and reach goals they had set the strategy will depend on the selection. With special emphasis on understanding the rules of the game on the market in which you want to venture and an analysis of the alliance (Peng, 2006).

The goal of all business decisions is the highest possible value creation, and hence to establish if a strategic decision, as it can be an alliance based in the capital, has the right motivation. The rationale for 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 were independent firms prior to 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.

There are several reasons to consider before establishing such a strategy. Among the main reasons we can mention the interest of getting the increased revenue, reduced costs, obtain market power, integration with specialized companies in areas where the other is weak, eliminating a competitor, achieve an increase in certain types of resources, improving yields through new management, achieve tax benefits or simply a combination of resources to increase productivity (Mascarenhas, 2006).

In late 2009 and early 2010 the major Mexican companies dedicated to strengthening and integrating their organization the various F & A made the global economic crisis affected the growth of companies, but most dealt with the situation and moved forward to consolidate its resources. The strategy not only carried out in their own lines of business but also the incursion into areas outside their main economic activities.

A. Problematization

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. 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.

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 firms 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.

B. OBJECTIVE

Based on the foregoing, it is established to analyze the execution of mergers and acquisitions as a strategy for Mexican companies best positioned within the major world rankings to achieve growth. 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.

The methodology developed will be in the selection 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 the main aspects and a brief description of the strategy developed for each selected company responding to the questions of what strategies are being implemented for growth? And what are the benefits of M & A? then general conclusions will be presented and finally identify items to choose M & A in the value creation and growth of their firms.

2. Mexican leader (EML)

A. SELECTION OF COMPANIES

Different rankings worldwide 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 is a kind of selecting process.

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 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 the magazine *America Economía* (*América Economía*, 2010).

Mexico is a country recognized in international markets, has the largest amount of international trade agreements, products and quality of its workforce have accepted worldwide and is a geographically favored nation. For this and other issues is that it is difficult to understand why more companies do not have positioned elsewhere in the world, 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 analyze their F & A as the main cause of their achievements, and what subsequent to refer to them as we do with the term leading Mexican companies (EML).

B. 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*.

1) GRUPO MEXICO

Utilities 2010: 1.800 million dollars (MDD).

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

International companies: *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)* substituted 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, thus creating subsidiary *Ferrocarril Mexicano* buys *S. A. C. V. (Ferromex)*.

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 improvement and even a merger between *Southern Peru Copper Corporation* and *Minera Mexico*, *Southern Copper Corporation* transformed and expanded its ownership 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.

2) FEMSA

Utilities 2010: 3.300 MDD.

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

International companies: 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, operates OXXO (8.621 stores) and participates the sale of beer, the second largest shareholder of Heineken beer leader with presence in over 70 countries (Femsa, 2011).

Each business unit has this interesting aspects of corporate analysis, but in this article we only focus on the strategies undertaken in their processes of growth through M & A.

a) OXXO

The company opened an average of 3 stores a day in Mexico in 2010, the same year began operations in Colombia and now has eight stores, all of its growth strategy has been made based on the resources of the firm and not operating as a franchise and has not made F & A to boost growth.

b) COCA-COLA FEMSA

Bottling born in Mexico 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 PANAMCO acquisition, 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 in 2007 was surprised with the acquisition of Jugos del Valle in Mexico and Brazil REMIL in 2008, which increased its stake in the Brazilian market, together with Mexico are the most attractive markets in LA. Not all acquisitions must be of large international companies, bought the company in 2008 Agua de los Angeles, the Valley of Mexico, and the acquisition was achieved double the share of that market in the city.

In 2010 he 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. Firms do not only F & A strategies, but also establish contractual alliances.

c) BREWERY

Founded in 1890 with the name of Cervecería Cuauhtémoc Mexico, in 1985 merges with Cervecería Moctezuma, the event serves to show that the strategy of M & A has been several years a good option for growing firms, with the merger of company not only expanded its product offering to the domestic market but also increase thus achieved their participation. In 1994, partners with the Canadian brewer John Labatt Ltd., which buys 30% stake.

Later in 2004 the share repurchase was sold to begin its expansion strategy internationally. That same year established a trade agreement with Heineken taking responsibility for the distribution, promotion and sale in the United States signed an agreement with Coors Brewing Company for the exclusive marketing of Coors Light beer in Mexico.

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 acquired the Brazilian brewer Kaiser, acquiring 68% of the shares and therefore begins to operate in the two Latin American markets more attractive. For this 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 and participate in the council Administrative Heineken.

3) AMERICA MOVIL

Utilities 2010: 7.300 MDD.

National companies that comprise: Telcel and Telmex.

International companies: 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 operating in 18 countries AL, but 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 Latin America. Your participation in the cellular market in Mexico is 71%, 33% in Central America, Caribbean 43% and in 9 South American countries it operates has a stake greater than 30% except for Chile (22%) (America Movil 2010).

The purchase of Carso Global Telecom by America Movil, valued at 33 billion dollars, was the largest merger in Latin America in 2010, "(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 telcos Carlos Slim have examples of successful mergers and acquisitions from 20 years ago in which through its consortium of Southwestern Bell Telecom acquired the state-owned Telmex, while in turn the company America Movil took on various telephone companies in Latin America and joined the firm course.

The acquisition by America Movil from 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. He has also reported an outstanding financial performance with net profits rising contrary to those of his rival Telefónica who reported a decrease in earnings (Datamonitor, 2010).

America Movil continues its strategy of M & A in Latin American countries, where growth continues to consolidate, the purchase of telecommunications companies has been confirmed, the proof is to buy in Central operations in Honduras and El Salvador the company Digicel Group Limited in early 2011, the company has 11.5 million customers in 32 markets in the Caribbean and the Pacific by buying the users of these countries will become part of the user network Claro (Digicel, 2011). It is expected to enter these companies trade in Jamaica and is likely to continue establishing alliances.

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, where the fusion medium-term business that has begun. Therefore no surprise that eventually will achieve its mission to perform in Mexico.

C. 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 have 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 (Mascarene, 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 to the growth of the firm and its consolidation, giving reason to the reasons cited for an F & A. In the case of Grupo Mexico is clear that, thanks to M & A can gain access to resources that became the second company with the largest copper reserve on the planet, a situation which could hardly

have been achieved through other means, but we cannot downplay made to other strategies, mainly in the restructuring processes, as though in recent years has not made any acquisition revenues and profits have increased significantly.

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 and Cervecería Moctezuma to reduce 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, then bought the company I represent growth Kaiser in LA.

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, was willing to hand over 20% of its shares for the total 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 factor determinant 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 its position well above their 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 their way into and possibly move to Televisa in the medium term.

3. 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 is not unique strategies to achieve growth companies and many alternative firms, who are trying to find the most appropriate.

The F & 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 all EML have used in some stage, as a means to grow and achieve their goals. Because of the variety among firms' motivations are varied, although 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.

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. 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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TABLE 1.

Ranking Mexican companies in 2011 COMPANY	PLACE 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