Globalization is now one of the buzzwords of business, and just like every new buzzword, it takes on a different meaning for different people, different national contexts, or different business segments. To begin to understand the response of Mexican agribusiness to globalization, it must first be put into context.

Throughout most of the twentieth century, Mexico’s economy was relatively closed. At the same time, the state played an important role, both in setting economic policy as well as in being directly involved in production and distribution. In fact, some observers of the Mexican business scene opine that Mexico’s industrial sector, as it existed up through the last decade, was the creation of the post-World War II Alemán presidential Administration.

Whether that be true or not (the purpose is not to discuss the origins of Mexico’s industrial sector), Mexican business grew and prospered in a closed economic environment—where, I would argue, one of the most important functions was negotiations with the government over a wide range of issues ranging from minimum wage rate, price levels, import protection, etc.

For agribusiness, as opposed to other industry segments, operating in Mexico meant dealing in an even more restrictive and closed environment. The Mexican Constitution placed strict limits on land holdings and recognized distinct types of land-tenure schemes. It did not allow for corporate farming. Since food represents an important part of the average consumer’s total expenditure, many items were under price controls. Also, imports were tightly regulated, not only to protect local farmers but during certain periods, in an effort to attain (at least on paper) food self-sufficiency.

Probably even more important was the direct state involvement in the production and distribution of food products. This was not only based on perceived political advantages, but among certain policymakers, there existed a deep distrust of the market system as a tool for food distribution. In fact, at one time, there was a freeze on supermarket construction in the Mexico City area.

Working in this environment involved the development of standard operating procedures (SOPs) that stressed supply management, low cost production, and schemes designed to get around government controls and regulations. For many Mexican agribusiness companies, these SOPs have led to long-term survival and extensive profits from operating in the Mexican market.

For foreign companies, the Mexican market also proved to be attractive. Since market development through exports was, in many cases, not a viable option, they opened operations in Mexico. To the extent possible, many were wholly owned affiliates focusing on the domestic Mexican market.

What does globalization have to do with all this? For Mexican agribusiness, globalization means the end of these long entrenched ways of doing business because of increased competition and due to radical change in the relation between the state and the private sector.

Globalization, for Mexican agribusiness, came about in the context of a massive structural change reform in the country. The challenge of Mexican agribusiness has been, first, to understand the new policy environment and competitive forces and then to position itself—that is, develop strategies—to survive and prosper.

Among many companies, the first response was one of disbelief. That is, they did not really think that the government would go through with the proposed reforms. Now that they see it as a reality, the response of a portion of them—especially the smaller companies—has been to apply pressure to turn back the clock. While not large, but loud, they have argued for renegotiations of the North American Free Trade Agreement (NAFTA). Probably more realistic, however, is the pressure not to open food and agribusiness in the negotiations with the European Union to the extent that took place with NAFTA.

That, of course, is the political response. What has been the business response? Probably one response is to go out of business. While it may sound cynical, this is what is happening. In the oil-crushing industry, there were more than 80 compa-
nies operating before the country opened up; now there are less than 20. This number will even further dwindle to maybe less than 10, with three or four companies dominating the market.

The response of those left has been to rethink the way that they do business. This has resulted in a rapidly changing industry structure, characterized by growth, consolidation, and spin-offs, which are many times achieved through joint ventures, mergers, and acquisitions.

Typically, M&As have been seen by corporations as instruments of revenue growth, especially by U.S. business. I believe that, today, in Mexico, M&As—along with joint ventures—are key instruments in business positioning and development.

In order to survive, Mexican agribusiness companies look to M&As, along with joint ventures, as a source for the following items:

1. growth to turn them into truly national players, achieving economies of scale and product segment importance, if not domination;

2. technology, not only in product production but also in management, marketing, and distribution;

3. access to new, especially foreign markets;

4. access to capital, which becomes especially important in the high-cost Mexican credit market; and

5. specialization and product-line expansion, as the realization sets in that they cannot, nor do not, have to produce everything and especially as they come to understand that their distribution system management is a source of competitive advantage.

Let me expand on these points using the primary example of a Mexican cattle operation, of which I am a partner. The company is located in the northwest Mexican city of Culiacan, which is also known for being the center of the traditional winter export vegetable market. It began as a family-run cattle marketing operation that bought and sold cattle. As is typical with many Mexican agribusinesses, in order to assure the supply of cattle, the company moved into feedlots and, finally, into meat processing. With the changes taking place within the domestic market, we were faced with essentially two choices: (1) entrench or (2) grow. The first was not really considered an option.

Originally, we had planned to grow internally, strengthening our regional presence. However, we were presented with an opportunity to buy another company located in the north central city of Monterrey. The acquisition of this company would turn us into the largest feeder in the country and give us a national presence.

The decision to buy was easy; even the negotiations were not that difficult. The real problem was the financing. Our first option was to look for bank financing and private placements. To our surprise we found that we were not adequately structured financially. We underwent an internal restructuring and also restructured a number of credits. Nevertheless, we did not count on the banks’ lack of understanding of the way agribusiness is structured and operates. After negotiations with one of the larger banks fell through, we turned to other options—two investment funds, Baring and Dalby. We got the money and bought the Monterrey company, but we also gave up part of the control of our company to these two funds.

The experience of the Mexican oil-crushing industry demonstrates another scenario. The local industry has also been dominated by family-owned companies. For many of these same reasons, they also looked for JV partners. But, also for these same reasons, they have not been successful. Probably the main reason is that they do not want, nor are they willing, to give up any control. Also, as important, many of these same companies have not made any necessary investment in equipment and plants nor have they made any significant adjustments to the manner in which they conduct business.

They have looked for JV partners as I said. Some large multinational companies explored the options, yet nothing materialized. What has happened, however, is that the multinational companies have decided to go it alone, or they are exploring the possibilities of such. Cargill did just that by opening a large crushing plant about 50 miles north of Mexico.

There are, however, a number of examples of successful JVs. Many of them have provided Mexican companies with technical expertise. VITEP—a poultry group located in Jalisco—partnered with Emery—a Canadian company that
supplies machinery to make egg cartons. For Emery, this has been a relatively “easy” way to enter into the Mexican market.

The market for acquisitions has been active as is evidenced by the following examples from last year:

- Choc Milk sold to Bristo Mayer.
- Corinter sold to Desc.
- 20 percent Maseca stock sale to ADM.
- Zwanenberg sold to Kir-Sara Lee.

This year, with the changing world financial situation, the interest to look for business opportunities remains strong. Probably the major difference is that they have become somewhat more selective and are driving harder deals. Nevertheless, this year has seen Grupo Quan sold to Unilever, Mrs. Birds sold to Bimbo, and La Victoria sold to Desc.

Probably the most interesting phenomenon, which represents a radical change in business thinking, is that of Mexican companies now handling “like” products of foreign suppliers. Baccoco is doing this with turkey products. Alpura distributes Midland Farms products in northern Mexico.

Moving away from acquisitions and JV, at the cattle company, we have supported the dumping demand against U.S. meat. I would argue that this is part of our short-term strategic reaction to growing globalization. It is not part of a longing for the past but a recognition of the hardball nature of international trade.

Our market strategies are not limited to blocking imports. We are exporting into the southern California market. We do not see ourselves as ever becoming major suppliers to the U.S. market. We cannot compete with companies like IBP. But we do see ourselves as low-cost suppliers to this regional market. Also, exporting into the United States has forced us to adapt to market disciplines that strengthen our position on the domestic market. Of course, having part of our income in hard currency does not hurt either.

The other key part of our strategy is to develop branded meat. We are now test-marketing in Comercial Mexicana. To the extent possible, we have innovated in packaging by displaying meat in a distinctively colored tray. We are now in the process of trying to patent the packaging.

Some areas of the marketing chain management are still slow to change, especially as they refer to the relationships between producer and processor. However, both the legal and regulatory system have mitigated against change. Contract law still provides adequate protection; also, the lack of clearly established norms and standards limit these types of vertical coordination arrangements. For the animal industry, this has meant that processing companies are backward-integrated, which guarantees both supply and quality.

There is movement in some of the large milling companies to work with growers for wheat and corn. The schemes vary, but they generally involve some form of technical assistance and support for access to credit: The companies, in return, purchase the grains. It is the buying arrangements that have tended to make this work, stressing reception stations and agile payment procedures.

Also, the role of the central wholesale marketplace remains strong in the market system. This will be slow to change for a number of reasons: (1) Small-sized consumer outlets still supply the majority of consumers, and small farms remain the rule rather than the exception; (2) while the Mexican market wants quality, the quality market has not really been developed; and (3) the central market places an important role on risk management—even if it is sometimes shifted back to growers.

Also, the central market reduces the need to maintain an in-house distribution system. Some companies, of course, will handle their own distribution; the best examples are Bimbo and Sabritas. Most others will do some of it in-house and distribute the rest through wholesalers or through a contract-type relationship.

To conclude, what can we say about the Mexican reaction: The food industry is undergoing a radical change in the way they operate. M&As, as well as joint ventures, are playing a role in (1) the acceleration of the consolidation process but also in (2) the support of changing business procedures and focuses. M&As have both strengthened the position of Mexican companies while, at the same time, they have provided a springboard for foreign companies to move into the Mexican market.