
Mergers and Acquisitions Strategies for Market Penetration in New Countries: the case of ALSEAGROUP

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Abstract

The principal subject matter of this document is to present the use of mergers and acquisitions as market entry modes, through the international strategy and global standardization. How practical part will be held strategic analysis of Grupo Alsea a Mexican company dedicated to the operation of restaurants in Mexico, Latin America and Spain, will show how it has managed to penetrate the Latin American market and beyond the European market, what were their strategies for penetrating markets in other countries? And how effective are these strategies? Thus, concluding that the use of mergers and acquisitions for Alsea group represented its main strategic key coupled with the synergy of corporate governance, social responsibility, sustainability and development of its employees.

Key-words: Acquisitions, Global Standardization, International Strategy, Mergers.

JEL: D220, D430, D470, M160, M210

Introduction

Most established and stable companies to become known in their environment decide to seek new horizons either in the same country or in different countries. They analyze the market and often detected very attractive opportunities for maximizing their profits. But everything takes

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time and process. A company with experience knows that even when it can know its market, there is always something new to learn especially when it comes from other countries, with a different culture, with institutions that handle different rules and with consumer preferences that may differ with the well-known market.

Companies seek to maximize their profits, and for this should consider strategies to use to enter new markets. For example, they should study their competition in the new market; establish the kind of competitive advantage that carried out on companies already established. It is important to clarify their orientation, as this is what will define its course within their environment, their performance will be based on them, and the activities will be prosecuted to do this. Paramount for an entrepreneurial company is how it intends to break into the market, how to do something that distinguishes it from existing.

It is necessary establishment of a strategy. According to David (2013, page 214), this will be the implementation of the result obtained in the process of formulating. For purposes of this study will discuss the strategy of global standardization, which aims according to Hill and Jones (2009) reducing costs through the optimal choice of where the company wants to place, according to the resources that meet the needs of the company. This strategy seeks efficiency in the activities, greater innovation and product quality plus it has to have global presence in different countries.

Theoretical framework

Globalization in some way generated a business entertainment worldwide, with companies that not only had presence in their home but went out to conquer other markets, which led to undertake changes in their strategies and invest in them before they did not invest, such as product innovation. Globalization brought a business competitiveness that made important distinction on others to stand out from the preferences of consumers and therefore maximize its profit (Garcia-Canali, and Martinez-Noya, 2009).

According to Peng (2010), the strategy can be approached from three perspectives, strategy and plan, such as action and integration. In the first it is outlined the plan to continue to achieve the

goal. The second is the implementation of that plan and the last talks about permanence, creating long-term strategies aimed at ensuring the success of the company any longer.

Mergers and acquisitions are other entry modes, generally the most used by companies. It is the union of two or more companies to generate a new combined (Mergers). Through this method is noted more strengthened market. It means the existence of competitive opportunities for change if the merger takes place between companies can create competitive advantages. The other is when a company acquires another (Acquisitions) (Vargas-Hernandez, Guerra, and Bojorquez Bojorquez, 2014). This method is simply the purchase of a company by another. Mergers and acquisitions mainly seek to bring together resources to enable them to companies involved in growth. For Mexico the opening of new markets generated from the FTA (Free Trade Agreement) that although some believe the country is not in a position to participate, others consider that opened the opportunity for new companies to come in and generate a market more competitive, driving companies to invest in innovation and technology processes.

Competitiveness: as a way to cover most of the market share, several companies made horizontal acquisitions which made the market became oligopolistic in some sectors.

Responding other companies made the same but for the opposite purpose, to join forces and avoid being acquired by companies that became oligopolies. Either vertically acquisition of companies also reduces transaction costs (Williamson, 1985).

Capital market failures: In this case mergers and acquisitions work to reduce information asymmetries, and reduce costs, which would otherwise be rough.

There are several reasons why a company may acquire another company, this it is talked about different types of acquisitions:

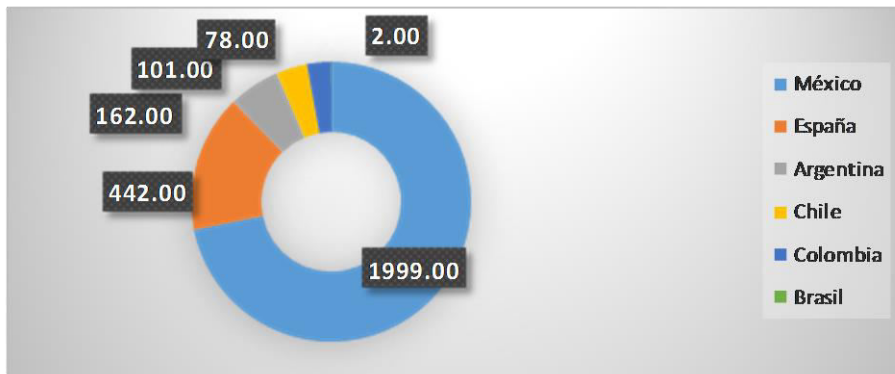
- A. The horizontal acquisition happens when both companies operate in the same country. They are distinguished by their administration and resource management. Usually they are most effective when integrated asset, but must ensure to evaluate their ability before doing so.
- B. Vertical acquisitions, is to acquire part of the value chain (suppliers, distributors,
- C. Related procurement is done when a company is acquired within an industry. And finally

D. Tran’s border acquisitions, for purposes of this research will be one of the most important to deal with. This is done when it is decided to buy companies in other parts of the world. Thus providing greater control, unlike strategic alliances (Hitt and Hoskisson, 2008).

3. Development

A way to explain the action to carry out acquisitions or mergers, it is taken the case of Grupo Alsea discussing its career, its achievements, accomplishments and explaining the reason for its actions. ALSEA Group is a Mexican company dedicated to the 4 segments, fast food, coffee shops, casual dining and family restaurant, thus covering different socioeconomic levels. Alsea group is now considered one of the best companies to labor, with more than 20 years in the market, already it has more than 6,000 employees, has a presence in 6 countries around the world, Mexico, Brazil, Colombia, Chile, Argentina and recently Spain, with around 2784 units in total of the 15 brands that account. Mexico and Argentina account for 75% of its portfolio.

Graph 1. Units per country



. Source: ALSEA (2010).

Graphic 2. Sales for each of its brands.



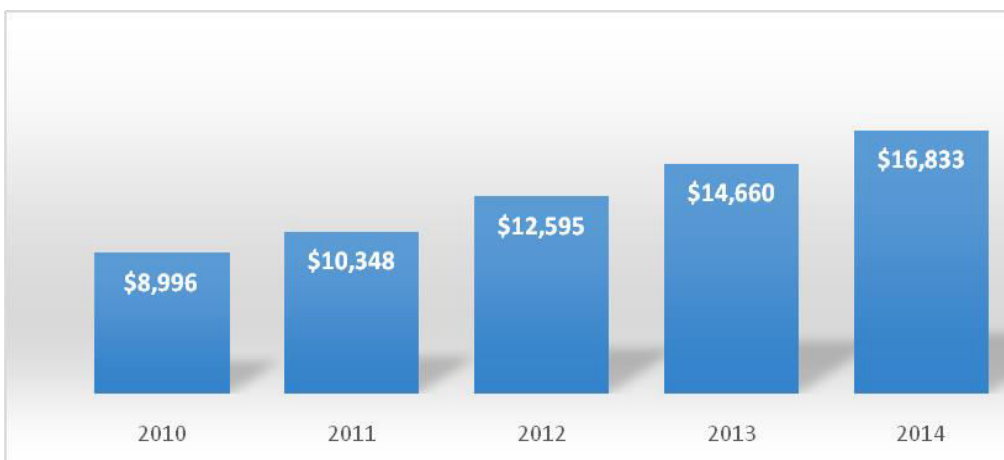
Source: ALSEA (2014)

Great successes represent Alsea Group, but like everything has had its ups and downs. However, Alsea Group was not formed for the overnight. It all started in 1989 with the establishment of the company Torrquin by Torrado brothers and so two years later began acquiring the rights to work with the brand Domino's Pizza, pledging to care, exploitation and development of Domino's Pizza system in Mexico until the year 2025. Two years later, in 1991, Burger King has a presence in Mexico, but even if Alsea Group already was working with this brand in Mexico, shared the franchise with around 7 franchisees. It was not until 2013; Alsea acquired 80% Burger King Franchise Mexico, thereby covering more of the market share.

So well successful that for 2002 Starbucks ventures into Mexico and Alsea Group is its "manager". The acquisition of Alsea Group on the rights of Starbucks is specified at 100% for 2015, which extends until 2027 and becoming the sole operator by legal rights to the brand in Mexico.

In 2005, Alsea entered the casual dining segment in 6 states in Mexico through the Chili's restaurant, even though its competitor CMR has a higher proportion of restaurants, this has not diminished the income Alsea obtained by the introduction of this restaurant. For 2008, Alsea decides it's time to add California Pizza Kitchen restaurant to his repertoire. A year later in 2009, Alsea Group makes a contract to perform FP operations Chang's in Mexico, and thus is the first time that this restaurant is operated outside the United States. By this time, Alsea had prognosticated of net sales for the coming years:

Figure 3. Estimated net sales of ALSEA Group



Source:Based on data fromSánchezE.(2011)

These projections were made taking into account the projected data for industry to undertake the Company regarding the issue Euro monitor Consumer Food Service in Mexico 2010, regarding the percentage share of the market for food prepared in Mexico. After demands by in consistencies, finally the acquisition is carried out favorably, and predicting a great battle for the most representative of Alsearival,CMR (Corporacion Mexicana de Restaurants), according to Ugarte (2011).

Alsea group agrees to comply with the requirements and thus acquire a whole line WALMEX VIPS, which means a total of 361 restaurants, 263 VIPS, 90 El Portón restaurants, 6 restaurants Ragazzia and 2 restaurants La Finca. Everything was acquired in the amount of \$ 8.200 million. It seems that even when forecasts indicate that the acquisition of VIPS by Alsea Group it could mean to get a low return on investments. This made its calculations well and decided to take the risk and making it part of its repertoire of restaurants.Thus Alsea Group in Mexico represents more than eight unit’s brands being distributed as follows:

Table 1. Units in the Mexican Republic.

RESTAURANT	No. of units
DOMINOS	604
STARBUCKS	456
BURGER KING	438
CHILIS	47
CALIFONIA PIZZA KITCHEN	22
P.F. CHANG’S	19
ITALIANNI’S	66
VIPS	259

EL PORTON	85
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Source: Based on data from ALSEA (2014).

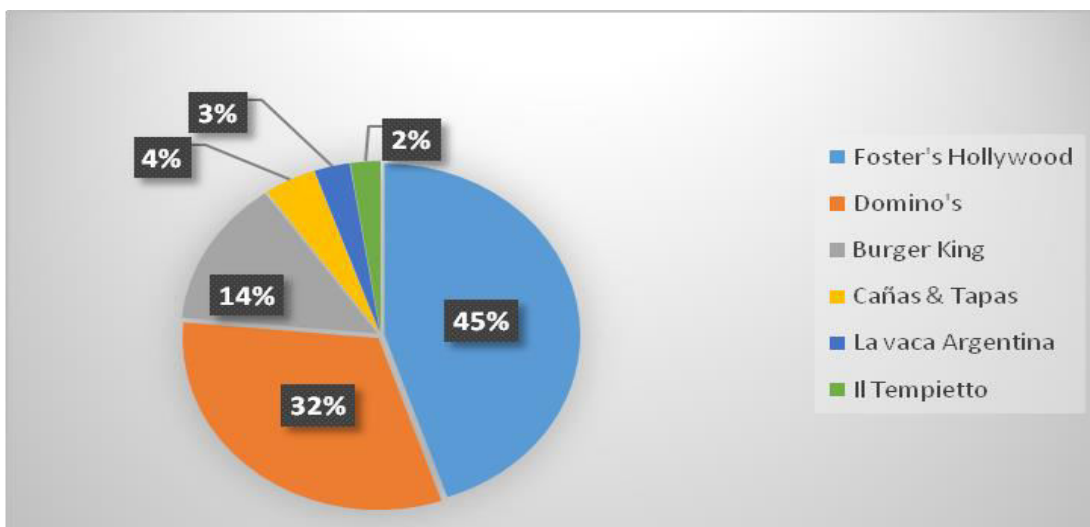
Major acquisitions achieve Alsea Group in Mexico. its expansion for 2008 with the purchase Domino's Pizza and Burger King in Colombia, in 2010 Alsea continues its way to doubling its income over a period of five years taking advantage of the increase in sub-penetration that fast food was leading this year. The company had income of \$ 8.996 million dollars and estimated growth for the next four years remaining.

For 2011 expands M.P. Chang's in Argentina, Chile and Colombia. In the same year developed the baking plant, Idea Food Concepts (2012). In 2013 it begins with the exclusive restaurant operations PF Chang's in Brazil, and acquired the master franchise to operate in Latin America the Cheesecake Factory. Thus, this is recognized as one of the best companies to work for. It is in this year when Alsea acquired 25% of the share capital of Grupo Axo; and acquires while in Mexico 100% of Starbucks operations in Argentina and Chile.

Meanwhile, after a long wait, finally manages to reach an agreement with Colombia to introduce Starbucks in the country, thus ending 2014 with the opening of the first Starbucks in Bogota Colombia.. With a market share 55.8% and 41.6% market share in terms of soluble coffee (Nutresa Group, 2015).

On the other hand, 2014, after the great acquisition of VIPS in Mexico, Alsea decides to go out conquer the European market through the acquisition of 71.76% of Grupo Zena according to data obtained by Forbes (2014). Likewise, the acquisition also includes the rights of franchises Burger King and master of Domino's Pizza in Spain, all for a total of 107 million euros, starting with bank debt in Mexican pesos approximately 1,900 million peso credit throwing by five years.

Graphic 5. Units in Spain



Source: Own creation with data from ALSEA (2014).

Strategies Group ALSEA

The strategy employed by Alsea group to achieve a success as it has been, is acquiring 100% of certain brands and other above 50% in each country where it operates. In this way it removes the uncertainty and forgets minority dealingsto businesses, but what is it that makes Grupo Alsea attractive for these brands that allow it to purchase from your management? Customers: The customer is paramount, as it is the raison d'être of every business, and knows Alsea group. So, it seeks to assure a great experience looking through its product, service and image.

- A. Collaborators: The main actors of Alsea Group and who will meet the goals of it are its members. That is, why Alsea Group has earned one of the best companies to labor, offering its employees opportunities for development.
- B. Synergy: Making critical mass in each management area.
- C. Results: A profitable and sustainable growth which ensures the company.
- D. Social responsibility: Grupo Alsea is known to have a commitment to society,

. As social fairness, Alsea Group respects gender equity. From their total number of employees have 28618 women and 31433men, providing training and development to encourage their growth and quality of life. Among the benefits that the company provides to its partners is life insurance, additional days off with pay, food coupons, discounts brand, disability coverage or disability, maternity or paternity leave, etc.

Alcea Group conducts evaluations colleagues to measure their performance. As a contribution to the planet and society, Alcea works to reduce company costs. Alsea is also working on reducing energy consumption, and in the sustainability of optimizing water consumption in each of its restaurants and cafes.

In 2014 Alsea Group was crowned as the leader in 4 of its 5 categories. Burger King obtaining 41% of the market and Domino's Pizza with 58% market share with its strategy of growth in sales and margins. Starbucks with 41% to 423 units for the second quarter of 2014 and last control to 50% of the market for casual dining with blemished Chilli's, Italianni's, PF

Chang's, California Pizza Kitchen and Pei Wei. Therefore it can be said that as part of their external strategies are added to these five:

- A. Its brands do not generate competition among themselves.
- B. It has a growth through aggressive organic expansion, increasing its range of brands and formats and an increase in the acquisition of brands.
- C. Holds faithful to each of its brands, which holds a sales growth of 22 percent annually.
- D. Take advantage of the growing middle class.
- E. Thanks to its diversity of brands can sell to all income segments.

Alsea Group announced in April 2015 to carry out the division of its operations into two business units, creating, Alsea Mexico by Federico Tejado who already has more than 22 years of experience and Alsea International by Fabian Gosselin who is currently the CEO of Alsea. These two business units report to the Board of Directors Alsea by Alberto Torrado.

Conclusions

Alsea group is a Mexican company that has proven to be one of the large companies that have conquered abroad, based on effort, strategies and best practices. Its primary market penetration strategy is the acquisition of the majority of its business to 100% and others above 50%. This gives much of the control over company decisions and the responsibility of the actions practiced, which has managed to properly handle. So it is a very smart strategy, and one can say that it has worked and it worked very well. Contrary to what some authors consider about purchasing company as a strategy for market penetration, it is important that business foundation is necessary to ensure proper use of these.

The synergy created between the different brands of Alsea group, responsibility for each of its brands and loyalty, and good treatment to their colleagues have opened the doors in several countries and has earned a placement of leadership in its field. Its internal structure enables it to detect the step that is going to give, so it knows there are ways to get to where it wants to go, such was the case of the Starbucks in Colombia, which was conducted through a merger the company Nutresa. However, this does not mean a setback in their strategies, because it was wise

to take the 70% stake, and even though there are customers who reject the idea, Alsea know is on the right path.

Its long-term vision has made this company great things. The acquisition of much of Zena group in Spain is just the beginning of a great opportunity. Without losing the floor Alsea Group is expected to continue to grow without losing the social responsibility that distinguishes creating jobs and to foster the development of its employees and increase the quality of life of people, and also, without losing sight of its new competitors.

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