

# Proceso de internacionalización de compañía multinacional de un país en desarrollo: las decisiones de inversión extranjera directa del Grupo Bimbo

---

Internationalization process of a developing country multinational: the outward foreign direct investment decisions in Bimbo Group

Juan Fernando Vélez Ocampo  
*j.velez@iush.edu.co*

Profesional en negocios internacionales, Institución Universitaria Esumer de Medellín (Colombia), Magíster en negocios internacionales, Universidad EAFIT (Colombia). Actualmente es profesor asociado de Negocios Internacionales en la Institución Universitaria Salazar y Herrera, Medellín (Colombia), miembro del grupo de investigación en Estudios Internacionales de la Universidad EAFIT y docente en la Institución Universitaria Esumer.

**Correspondencia:** Carrera 70 n° 52 - 49, Bloque académico, tercer piso Medellín - Antioquia (Colombia).

pensamiento y gestión, N° 34  
ISSN 1657-6276 (impreso)  
ISSN 2145-941X (*on line*)

## Resumen

En el campo de investigación en negocios internacionales hay una escasez de conocimiento extendido sobre teorías de internacionalización aplicadas a multinacionales de países emergentes. Este artículo explica las causas de la conducta de inversión internacional del Grupo Bimbo, líder mundial en la industria panadera, y la relevancia que tienen las principales teorías de internacionalización en las decisiones de inversión extranjera directa. El modelo Upsala y las ventajas de propiedad, locación e internalización que constituyen el modelo ecléctico serán explicados y comparados con el proceso de internacionalización del Grupo Bimbo, que se presentará cronológicamente. Finalmente, se llega a la conclusión de que el paradigma ecléctico de Dunning (2000) explica las decisiones de inversión extranjera del Grupo Bimbo.

**Palabras clave:** *Internacionalización, Inversión Extranjera Directa (IED), multilatinas, modelo Upsala, modos de ingreso.*



## Abstract

There is a lack of extended knowledge on internationalization theories applied to developing countries firms (DCF) within the international business field. This paper explains the drivers of the international investment behavior of world leader baking company Bimbo and the relevance that the main internationalization theories have in the foreign direct investment (FDI) decisions. Ownership, Locational and Internalization (OLI) advantages, as well as the Uppsala model, will be explained and compared to the Bimbo's internationalization path. Furthermore, Bimbo's international operations are summarized and presented chronologically. Finally, a comparison between the above mentioned theories and the company's behavior is provided, and the conclusion that Dunning's (2000) eclectic paradigm explains the firm's internationalization is suggested.

**Keywords:** *Internationalization, Foreign Direct Investment (FDI), multilatinas, Uppsala model, entry modes.*

## 1. INTRODUCTION

This article aims to explain the drivers of the internationalization process of *Grupo Bimbo*. To do so, a review of accepted internationalization theories is provided and linkages between these theories and Bimbo's internationalization path are drawn.

Within the following stages: a literature review that generates an academic ground in which the comparison is developed; a summary of Bimbo's foreign investment decision, which relates to both: Greenfield investment and Mergers and Acquisitions (M&As); and finally, a section of findings that presents a comparison between the firm's drivers to internationalize and the abovementioned theories, especially those that suggest evident similarities.

There is abundant literature regarding the characteristics of the services, furthermore, most of the authors agree on the basic elements that a service has: intangibility, inseparability of production, heterogeneity and perishability, however, it is hard to define to what extent a company belongs to third sector or to the industrial one. In the case of Grupo Bimbo, although it is a company that apparently belongs to the production sector of the economy, their key success factors are: the distribution; transportation; the use of trade-marks and advertisement; and availability of both raw materials and end-products (Hoshino, 2001), hence in spite of being a production company, its key success characteristics are clearly encompassed with the definition of the service sector. Consequently, the internationalization process of this company has been closely related to an expansion of a service firm, which makes the company part of the so-called "servuction" sector (Eiglier & Langeard, 1977) that refers to the mixture between a service and the production process.

## 2. METHODOLOGY

This study belongs to an exploratory study approach of the grounded theory strategy. The unit of analysis is the firm. The literature review was inspired by Ietto-Guilles (2005) and Hymer's study on the market power of the multinational firm and foreign direct investment (1976),

although, the main academic source is John Dunning's (1980) in which the main foundations of the eclectic paradigm were established.

Another source is the available corporate information in Bimbo's official webpages, which results very useful in spite of being a non-academic source.

One last source of secondary information is the research findings of a few scholars (Fuerst, 2010; Argáez Hernández & Zwerg-Villegas, 2011; Moreno Lázaro, 2009) who have been interested in internationalization theories regarding Latin American multinationals firms.

This study has some limitations that suggest further analysis and research: first, the lack of relevant academic information derivative from research groups interested in internationalization patterns, especially regarding *multilatinas*; and second, it does not take into consideration political and economic issues that have clearly affected the outward FDI of Bimbo.

A very useful extension of this study would be the analysis of the influence of regional integration agreements (free trade areas, custom unions, common markets and economic unions) on the international decisions that Bimbo has taken in the last three decades, furthermore, an interesting analysis would be the drivers and evolution of Bimbo's competitiveness.

### 3. LITERATURE REVIEW

The eclectic model developed by Dunning (1980) explained the internationalization process considering two types of involvement, one related to goods and services directed toward foreign markets made out of national resources within the national boundaries, this approach corresponds to the conventional international trade theory, and other related to those agents that use resources located in different countries to produce domestically in order to supply directly markets abroad, which corresponds to international production and foreign direct investment (Ietto-Guilles, 2005).

According to Fuerst (2010), neither monopolistic advantages nor internalization are able to answer “where” the company should operate in the international arena. The former theory, developed by Hymer (1960), considers “why” international investment is possible, whereas the latter explains “how” and “when” internalizing foreign operations is desirable. At that time, Dunning (1977) addressed the issue of “where” the firm should operate by putting forward the so-called OLI paradigm.

The OLI paradigm analyzes “why”, “where” and “when” MNCs make decisions regarding ownership, locational and internalization (OLI) advantages. Ownership advantages are specific to a particular firm, constitute competitive advantages towards rivals and allow the company to take advantage of investment opportunities both domestically and internationally. Dunning (1980) divided ownership advantages into three types: the first is the standard advantages, which any firm can have over another producing in the same country, including: size, monopoly position, established market position, special access to inputs or and markets, and superior technical and/or organizational knowledge. The second type regards the advantages that a branch of a national firm may have over a new firm, specifically relating to the benefits acquired for belonging to an existing organization.

These benefits include access to innovation and technology at low marginal costs, access to cheaper inputs and knowledge about market and local production. The third type of ownership advantage refers to the experience that the firm has because of its involvement in international operations, and the multinationality fostered by the firm’s background (Ietto-Guilles, 2005). In the same direction, ownership advantages evidence that what a firm does, or is about to do, is closely linked to its routines and previous bases (Shin-Horng & Meng Chun, 2005).

Locational advantages are specific to a particular country, which makes it attractive for foreign investors (Ietto-Guilles, 2005). These include variables such as the export/import ratio, relative market size, relative wages, relative export shares of home and host countries and comparative market growth of home and host countries (Dunning, 1980).

Internalization advantages are the benefits derived from producing internally to the firm, and therefore, permit to bypass external markets and the transaction costs. The main internalization incentive advantage is the transactional market failure, though public intervention, lack of common policies among countries and lack of harmonization also contribute to internalization behavior and, therefore, they stand as internalization incentives advantages (Ietto-Guilles, 2005). In case a firm finds the presence of the OLI advantages, it is more likely to operate through direct production rather than through exports, joint ventures, licensing or franchising (Argáez Hernández & Zwerg-Villegas, 2011).

As part of his paradigm, Dunning (1980) identified three conditions for foreign direct investment: first, the firm must possess “net ownership advantages *vis-à-vis* firms of other nationalities in serving particular markets” (Dunning, 1980:275), second, the firm must benefit from internalizing its assets rather than adopting an exporting position, and third, the host country must offer special locational advantages to be used with the ownership and internalization advantages (Ietto-Guilles, 2005).

As pointed out by Fuerst (2010), Rugman and Verbeke (2001) identified links between the eclectic paradigm and key location advantages for four different types of international production: natural resource seeking foreign direct investment, market seeking foreign direct investment, efficiency seeking foreign direct investment and strategic asset seeking foreign direct investment.

The Uppsala model (Johanson and Vahlne, 1977) also explains the internationalization path of a firm. These Swedish scholars based their theory on the establishment chain, the physic distance and the behavioral theory of the firm (Cyert and March, 1963). The establishment chain is based on market commitment, which starts with non-regular export activities and then changes to regular ones, after the firm establishes an owned sales subsidiary overseas, and the process might end up with the establishment of a production plant on a given market (Morgan and Katsikeas, 1997). Experiential knowledge regarding a market increases the market commitment, and this is why this model presents an internationaliza-

tion path that some scholars criticize because it seems too deterministic (Forsgreen, 2008).

According to the Uppsala model, a company is more likely to invest on a market where the psychic distance is low compared to the origin country, due to the fact that the physic distance is related to the uncertainty (Hansson, Sundell and Ohman, 2004). The bottom-line of the Uppsala model is that the lack of knowledge regarding a foreign market becomes the main barrier to an increasing commitment to internationalization; yet, the firm can overcome such liability through experiential learning (Argáez Hernández & Zwerg-Villegas, 2011).

#### 4. FINDINGS

*Bimbo* was originated in Mexico City back in 1945, when Lorenzo Servitje, Jaime Jorba, Jaime Sendra, José T. Mata, Alfonso Velasco and Roberto Servitje decided to take advantage of their family bakery's experience to create a company that produced high quality, nourishing, tasty, inexpensive bread (Bimbo, 2011). They made up the word "Bimbo" by blending the words "*Bingo*", the popular game of chance, and Disney's character "Bambi". Later on, they realized that this word was used instead of "bambinos" in colloquial Italian to refer to children. By 1946 Bimbo used to distribute its products in Mexico City and some nearby towns such as Pachuca, Cuernavaca, Toluca and Puebla. As soon as the company's acceptance increased, the incipient board of directors made an informal alliance with newspapers distributors in order to reach rural areas. However, this alliance was insufficient to fulfill the Mexican market demand, so the company decided to acquire its own truck fleet, which served them not only in terms of distribution, but also their marketing purposes (Bimbo, 2012).

From the 1950s until the 1970s the company developed a successful domestic infrastructure in terms of logistics, production and manufacture. Their driver to open new plants, especially the Monterrey one, was the incapability of the existing plants to satisfy the local demand.

*Bimbo's* strong vertical integration forced its competitors to industrialize and take advantage of the economies of scale, resulting in the generation of an oligopoly, in which *Bimbo* and *Gamesa* represented, back in 1980, 80% of the Mexican market share (Moreno Lázaro, 2009).

During the 1980s the firm grew at a higher pace than the worldwide baking industry, that is why in the late 1980s they decided to look for foreign markets, because they wanted to avoid the risk of being a national firm somewhat weak comparing to TNCs. Hence, the company penetrated the American market through direct exports towards Houston, Texas in 1984, then, in 1989 the firm established a Greenfield FDI in Guatemala, which was the first production plant outside the home country. The international movements the company underwent within this decade represent clearly the so-called defensive investment behavior (Knickerbocker, 1973).

During the 1990s *Bimbo* redirected their internationalization process towards Mergers and Acquisitions and not only towards Greenfield FDI, due to the pressure of regional competitors. They acquired several successful companies in Latin America, like *Alesa* in Chile, *Holsum* in Venezuela, and *Plus Vita* in Brazil, for instance. Additionally, *Bimbo* was created in El Salvador, Costa Rica, Argentina and Peru; and in 2001 *Bimbo* made an alliance with *Noel*, from Colombia (*Bimbo*, 2012).

Regarding North America and Asia, *Bimbo* has favored its expansion through acquisitions. In 1998, they acquired Mrs. Baird's, an American industrial bakery which had 11 production plants and 3.000 employees. Subsequently, in 2002, *Bimbo* had its greatest acquisition when they bought the Canadian company George Weston Inc. that operates in the west American coast under the brands *Oroweat*, *Entenmann's*, *Thomas'* and *Boboli*. Finally, in 2006 they acquired the Chinese subsidiary of the Spanish company *Panrico*, in order to take advantage of the enormous Chinese market and its locational specific advantages (*Bimbo*, 2012).

The world crisis has not affected *Bimbo's* international acquisitions, within the last years *Bimbo* has acquired several Mexican bakeries: *La Corona*, *Gabi Cookies*, *Joyce*, *El Globo*. They have also acquired some

firms abroad: Lalo's Bakery (Colombia), Pan Europe (Guatemala), Los Sorchantes (Uruguay), South Lakes (Chile) and Plus Vita Nutrella (Brazil). Currently the group has more than 170 brands, 156 plants worldwide, 42 plants in Mexico, 34 in the United States, 25 in Central and South America and 2 in China.

According to Bimbo's financial statements 2012, their net sales increases 14,1% between 2010 and 2011; their consolidated sales increased 14,1% and their net utility increased 2,1%. The volatility in the commodities market has been offset by their four strategic priorities: market leadership, efficient management, low cost distribution channel and human resources development.

## 5. DISCUSSION

Bimbo's internationalization process has undergone several stages, in its first phase they developed strong managerial, marketing and production advantages in the domestic market, hence, they decided to penetrate the American market via independent representatives. So far, Bimbo's path corresponds to the Uppsala model (Johanson & Vahlne, 1977), especially regarding the first stage in the establishment chain. However, the company leapfrogged the subsequent stages of the Scandinavian School by establishing a production subsidiary via Greenfield FDI in Guatemala. Finally they moved to the Mergers and Acquisitions approach (Forsgren, 2008). Thus, although the Uppsala model might explain the first movement *Bimbo* had abroad, it is not satisfactory enough to explain the company's whole internationalization process.

Back in the 1970s and 1980s the import substitution model in Latin America reached its limits and many countries were forced to face the crisis of the so-called lost decade. The outcome of these decades was a debt crisis that triggered an economic reform in the late 1980s and 1990s (Bruton, 1998; Bullmer-Thomas, 2001). As a result of this process, companies were no longer protected by governments, which liberalized the entry of foreign companies and disbanded price controls (Kuczynski & Williamson, 2003). This whole process make local companies to rethink their strategies, acquire foreign technology and establish alliances with

foreign companies. Bimbo was one step ahead, because they decided to increase both their financial commitment within Latin America.

*Bimbo's* commitment and involvement in foreign markets seem to be explained by its specific endowments at the domestic level, its internalization behavior and its multinationality. This may lead to the assumption that the eclectic paradigm fully explains its foreign markets penetration. Nevertheless, such assumption needs further empirical testing, which will be carried out by comparing the OLI principles with the company's development.

Regarding ownership advantages, the firm has gained technical and managerial knowledge in the local market, besides, whenever they access a foreign market they take advantage of belonging to a larger preexisting organization in terms of knowledge and technology transfer.

Dunning's location-specific advantages are taken into account when deciding which market penetrate first, for instance, *Bimbo* entered the American market due to spatial distance, its advantages in transportation and communications and government policies. Afterwards, they looked for markets in Latin America and Asia, the former as an attempt to reduce the liability of foreignness, and the latter as a token of their "ability to take advantage of opportunities wherever they arise" (Ietto-Guilles, 2005)

Although the US market is spatially close to Mexico, these markets are not that close in terms of education, language, culture and industrial development. So in this case, there is a conflict between what Johanson and Vahlne (1977) argued and the real world.

The internalization advantages are perhaps the most clearly related to *Bimbo's* subsidiaries overseas, especially because of the strong vertical integration that the company tries to keep wherever they operate. Moreover, they replicate their successful own distribution channel within their subsidiaries, and they place their key success factor in their world class distribution, as Jaime Pérez, director of corporate sales, affirms: "Without any doubt, our biggest success is distribution, baking bread

under certain quality standards is kind of simple, however, distributing it is not simple at all” (Bimbo, 2012).

Although Dunning (1980) decided to exclude from his empirical study countries such as Mexico and Brazil on the basis that less developed countries have produced, historically, more raw materials and semi-finished manufactures, and therefore, such countries needed a separate treatment. Nonetheless, a company with over 90 production plants in 14 countries as Bimbo (Bimbo, 2012) proves that Dunning’s reason for leaving developing countries behind does not longer apply.

Despite the fact that Dunning’s paradigm was originally evaluated taking into account the sales of US affiliates in fourteen manufacturing industries in seven countries in 1970 (Dunning, 1980), there are academic reasons that evidence that comparison between *Bimbo’s* internationalization process and the eclectic paradigm is worthy and relevant for the extension of international business knowledge, because such study would contribute to the understanding of the internationalization process of a developing country firm (DCF), a research field that, according to Fuerst (2010), is still in its infancy in Colombia due to the lack of research groups, since master programs and faculty with doctoral studies in international business.

Back in the 1970s and 1980s the import substitution model in Latin America reached its limits and many countries were forced to face the crisis of the so-called lost decade. The outcome of these decades was a debt crisis that triggered an economic reform in the late 1980s and 1990s (Bruton, 1998; Bullmer-Thomas, 2001). As a result of this process, companies were no longer protected by governments, which liberalized the entry of foreign companies and disbanded price controls (Kuczynski & Williamson, 2003). This whole process make local companies to rethink their strategies, acquire foreign technology and establish alliances with foreign companies. Bimbo was one step ahead, because they decided to increase both their financial commitment within Latin America.

## 6. CONCLUSIONS AND RECOMMENDATIONS

DCMNs have attracted the academia attention within the last few years; scholars have reached some shared arguments about their internationalization patters as argued by Cuervo-Carruza (2007): first, *multilatinas* take longer time to become MNEs, especially because of their difficulties to develop their competitiveness and catch up international standards. About this topic, Bimbo has a strong advantage: they have developed an innovation ambiance inside the company not only related to the products but also to the coordination of the plants, the distribution channels and the computing platforms that support their operations. One thing they should reinforce is the innovation based on consumer preferences outside Mexico, especially in South America, Europe and Asia.

Second, *multilatinas* are usually more likely to become MNEs after changes in the country that follow the economic reform induce them to upgrade their competitiveness to international levels; in their home country, one of the most outstanding competitiveness characteristics of Bimbo is that they are able to sell their products to an average of less than a mile from each consumer (Bimbo, 2012); when trying to establish a similar way abroad, they should definitely adapt to the host country culture in terms of grocery shopping, besides, they should attempt to work closer with local firms that have already developed some distribution channels in order to get to know how the markets works and what the consumer wants. Third, Cuervo-Cazurra (2007) states that *multilatinas* follow four strategies in their selection of the country where to start multinationalization, depending on difficulties and advantages of culture and level of development of the host country. It would be worth it for Bimbo to explore and increase its commitment in countries that are distant in terms of culture and development, although one major challenge is to reinforce their R&D department to reach a successful adaptation. Another issue to be considered by Bimbo is to increase its operations in South America by strengthening its distribution channels and building up a strong relationship with customers that allow Bimbo to enhance its market share and customer satisfaction.

Regarding internationalization theories applied to the Bimbo case, it could be said that the Uppsala model explains the first internationalization movements of Grupo Bimbo; however, the company leapfrogged the following stages of this theory and continued its internationalization path using Greenfield and M&As, which within the Uppsala model, are the last steps of the establishment chain.

Dunning's eclectic framework is relevant in the internationalization of *Bimbo* since OLI advantages are interlinked and explained the aggressive FDI behavior of the firm. *Bimbo* started its internationalization process motivated by its ownership advantages, then looked for opportunities abroad, especially in countries with locational advantages that were useful for the company, and finally, as the transactions costs of producing abroad are low, they favored internal production rather than outsourcing, licensing or franchising, which means they also enjoyed internalization advantages.

## References

- Argález Hernández, S. & Zwerg-Villegas, A. M. (2011). Applicability of firm internationalization theories to Colombian Multinational Enterprises. *Revista de Negocios Internacionales*, 4 (1), 57 – 71.
- Bimbo (2012). Acerca de grupo Bimbo. Disponible en :<http://www.grupobimbo.com/display.php?section=1&subsection=5#>. Accessed May 28th, 2012
- Bimbo (2012). Historia Grupo Bimbo. Disponible en: <http://www.grupobimbo.com/admin/content/uploaded/Historia %20Grupo%20Bimbo.pdf>. Accessed May 18th, 2012
- Bruton, H.J. (1998). A reconsideration of import substitution. *Journal of Economic Literature*, 36, 903-936.
- Bullmer-Thomas, V., (2001). *The Economic History of Latin America since Independence*. Cambridge: Cambridge University Press.
- Shin-Horng, Ch. & Meng Chun, L. (2005). International R&D deployment and locational advantages of developing countries: a case study of Taiwan. *International trade in East Asia, NBER- East Asia Seminar on economics. National Bureau of Economic Research*, 14, 81- 108.
- Cuervo-Cazurra, A. (2007). The Multinationalization of Developing Country MNEs: The Case of Multilatinas. *Journal of International Management*, 13, 258 -277.

- Cyert, R.D. & March, J.G. (1963). *A behavioral theory of the firm*. Englewood Cliffs, NJ: Prentice Hall.
- Dunning, J. (1977). Trade, location of economic activity and the MNE: a search for an eclectic approach. In: Ohlin, Gertil G.; Hesselborn, Per-Ove; & Wijkman, Per M. (Eds). *The international allocation of economic activity* (pp. 395-418). Macmillan: London.
- Dunning, J.(1980). Explaining changing patterns of international production: in defense of the eclectic theory. *Oxford Bulletin of Economics and Statistics*, 41 (4), 269-95.
- Dunning, J. (1980). Towards an eclectic theory of international production: some empirical tests. *Journal of International Business Studies*, 11 (1), 9-31.
- Dunning, J.(2000). The eclectic paradigm of international production: a personal perspective. In: P.J. Buckley and P.N. Ghauri (Eds.), *The internationalization of the firm: a reader*. London: ITBP.
- Eiglier, P. & Langerd, E. (1977). Services as systems, marketing implications. *Marketing Science Institute, Report 77-I*, 15.
- Forsgren, M. (2008). *Theories of the multinational firm: A multidimensional creature in the global economy*. Edward Elgar: Cheltenham, UK.
- Fuerst, S. (2010). The development of international business theory: implications for international business teaching and research in Colombia. *Cuadernos de administración, Universidad del Valle*, 43, 33-51.
- Hansson, G., Sundell, H. & Ohman, M. (2004). *The new modified Uppsala model – based on an anomalistic case study at Maleberg Water AB*. Bachelor dissertation, Department of Business, Kristiansand University, Sweden.
- Hoshino, T. (2001). Industrialization and private enterprises in Mexico: 4: Modernizing a Traditional Industry: Bimbo. *IDE Occasional Papers Series*, 36 (63).
- Hymer, S. (1960). *The international operations of national firms: A study of direct foreign investment*. Ph.D. dissertation, MIT, published by MIT under the same title in 1976.
- Johanson, J. & Vahlne, J.-E. (1977). The internationalization process of the firm: a model of knowledge development and increasing market commitments. *Journal of International Business Studies*, 8 (1), 23-32.
- Knickerbocker, F.T. (1973). *Oligopolistic reaction and multinational enterprise*. Harvard University Press: Boston.
- Kuczynski, P. P. & Williamson, J. (2003). *After Washington Consensus. Restarting Growth and Reform in Latin America*. Washington D.C.: Institute for International Economics.

- Moreno Lázaro, J. (2009). La formación de la gran empresa galletera Mexicana, 1907 – 2007. *Historia Mexicana*, 58 (3), 1045-1092.
- Morgan, R. & Katsikeas, C. (1997). Theories of international trade, foreign direct investment and firm internationalization: a critique. *Management Decision*, 35 (1), 68-78.
- Rugman, A.M. & Verberke, A. (2001). Location, competitiveness, and the multinational enterprise. In Rugman, A.M. & Brewer, T.L. (Eds.), *The Oxford handbook of international business* (pp. 150 – 177). Oxford: Oxford University Press.