

GRUPO BIMBO: THE WORLD'S LARGEST BAKING COMPANY AND THE CHALLENGE OF THE IBERIAN MARKET¹

"We strive to be a highly productive and fully humane company."

Lorenzo Servitje, founding partner at Grupo Bimbo

It was September 2014, and the authors of this case went to Grupo Bimbo's corporate offices in Mexico City to interview the company's top management. In 2013, the Group's global sales had been over MXN² 176,040, or about USD 14 billion (see Exhibit 1). Grupo Bimbo was the world's largest baking company by brand positioning as well as production and sales volumes, and it was also the undisputed leader in the industry in Latin America and the United States.

It had a portfolio of over 10,000 products, distributed across more than 100 highly prestigious umbrella brands (see Exhibit 2), and it was present in 22 countries (Argentina, Brazil, Canada, Chile, China, Colombia, Costa Rica, Ecuador, El Salvador, Spain, the United States, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Portugal, the United Kingdom, Uruguay and Venezuela). Its powerful distribution network covered more than 52,000 routes and comprised more than 2.4 million points of sale. Bimbo had a turnover of over MXN 73 billion per annum from baked products and confectionery in Mexico, some USD 5.8 billion³.

It operated 167 production plants, 39 in Mexico and 128 abroad, in addition to 3 marketing plants and another 8 with strategic partners. Its corporate offices were located in Mexico City. It employed 129,000 people. Since 1980 it was listed on the Mexican Stock Market (BMV) under the ticker symbol BIMBO, and since 2011 it was included in the Sustainable Index of that financial institution.

¹ This case has been published by the Research Division of Instituto Internacional San Telmo, Spain. It has been written by Professor Miguel Ángel Llano Irusta, of Instituto Internacional San Telmo and Professor Enrique Taracena Figueroa of IPADE, in collaboration with research assistant D. Francisco Javier Delgado Muñoz. This case is intended as a basis for class discussion only and not to illustrate any judgment on the effective or ineffective management of a specific situation.

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Rev. March 2016

² USD 1 = MXN 12,58

However, it was not all positive in Grupo Bimbo's trajectory. One of its main concerns in Spain and Portugal was to offset the predominance of private labels, which had a combined market share of 65%. It also needed to make the Bimbo Iberia operation profitable because, although net sales had bounced back since its acquisition in 2011, operating profit was still negative. Other countries, like China and Brazil, were also experiencing losses, and Grupo Bimbo was striving to increase sales and improve profitability in those regions.

GRUPO BIMBO

Bimbo was one of the most prestigious companies in Mexico, where it had a high social reputation. It was considered an excellent company, built with patience and dedication by Lorenzo Servitje and his partners since 1945 (see Exhibit 3). The Group, initially called Pacificación Bimbo (Bimbo Bakery), was incorporated in 1945 by Lorenzo Servitje, together with Jaime Jorba, Jaime Sendra, Alfonso Velasco and José Mata. In 1963, Servitje was appointed CEO, starting an era of expansion, diversification and growth, that was further strengthened when, in 1997, his son Daniel took on the position of CEO.

Then, in 1998, the company acquired the North American bakery Mrs. Baird's in Texas. In 2001, it acquired Plus Vita and Pullman in Brazil, and a year later, Weston Foods Inc.'s assets in the West Coast of the United States.

However, this thought-through policy of constant corporate growth was not without obstacles. In 2007, when Bimbo announced its intention to acquire 70 percent of Fargo in Argentina, the local competition and antitrust authority conditioned the transition to the sale of a production plant and Fargo's second largest marketing brand, Lactal.

Later, in 2009, it acquired George Weston Foods, a transaction of USD 2,505 million, and in 2011 it did the same with the American Sara Lee, for USD 959 million. In 2012, thanks to that last acquisition, Bimbo became the top sliced bread seller in the United States. However, to avoid monopoly in the sector, the Department of Justice conditioned the operation to the sale of some brands, assets and routes in certain areas, subtracting an income of USD 155 million.

Grupo Bimbo had focused on the acquisition of other companies in the industry and set out to become the largest bakery on the planet. In 2013, it had remarkable results in the main regions where it operated, namely Mexico and the United States.

PERFORMANCE BY REGION IN 2013

Mexico

Grupo Bimbo's operation in Mexico included Bimbo, Barcel (snacks) and El Globo (bakeries), and it comprised approximately 40% of the Group's sales. Several product categories held leading positions in this market, the result of almost 70 years of growth and expansion that made it the country's preferred food company.

In 2013, the Mexican government introduced a package of structural reforms that would affect multiple sectors of the economy when it came into force in 2014. These reforms included several measures related to consumption, such as additional tax charges for particular categories of goods. Some high-calorie products in the Grupo Bimbo portfolio were among these categories.

Price increases implemented through 2013 helped net sales grow by 3.8 percent compared to 2012, despite the negative trend in volumes. Grupo Bimbo benefited from a cost reduction in key raw materials as well as from a favorable impact of exchange rates; with a larger investment in marketing and distribution, the Group's operating profit in Mexico increased by 20.6 percent to MXN 9,556 million (see Exhibit 4).

According to brokerage house Accival's reports, between 2003 and 2013, Bimbo had maintained a steady market share of 90 percent in the packaged bread industry in Mexico. At any convenience store, the range of products was limited to brands of the same company, primarily Bimbo, Wonder and Oroweat.

In the cake market, the situation was similar. A study by Euromonitor International noted that Bimbo had a 74 percent share of the packaged cake market, which was a growing one. Mexicans consumed cakes mainly for breakfast and/or snack, according to a report by Euromonitor, which also stated that Mexico had the highest per capita cake consumption in the world.

United States

Grupo Bimbo's operation in the United States accounted for almost 45 percent of the company's consolidated sales in 2013. These numbers were the result of a long path of acquisitions and integrations of baking companies, which significantly broadened the company's geographical presence and its product portfolio in the United States.

Net sales growth in dollar terms was 4.2 percent, while peso sales rose by 1.1 percent compared to the previous year, to MXN 79,767 million (see Exhibit 4).