

## **PROAN<sup>1</sup>**

In 2017, PROAN Proteína Animal, a variable capital corporation, was a Mexican company involved in the transformation of natural inputs into high-quality food for human consumption. Its products included eggs, egg products, meat products, milk, and frozen bread and were sold in the Mexican market and abroad. PROAN had consolidated as a company with outstanding human capital that used state-of-the-art technology and implemented environmentally friendly processes. Its products were appreciated for their high quality.

PROAN played a fundamental role in egg poultry farming in the Mexican domestic market and the world. The company was the largest egg producer in Mexico and Latin America and the second-largest in the world, best known for its brand Huevo San Juan. It was founded in 1954 and was located in San Juan de los Lagos, in the Los Altos area of the Mexican state of Jalisco. The town was also well known for the Virgin of San Juan de los Lagos and was the country's second most prominent pilgrimage site.

In 2012, Mexico suffered an outbreak of H7N3 bird flu that was particularly severe in the Altos de Jalisco region, the country's leading egg-producing and exporting region. This event caused the death of almost 25 million hens. Virus-free areas like Sonora, Sinaloa, Chihuahua, Baja California Norte and Baja California Sur in the Northwest, and the Yucatan Peninsula in the Southeast (Campeche, Yucatan, and Quintana Roo) banned the eggs produced on farms in the states of Jalisco, Guanajuato, Aguascalientes, and Puebla (see Exhibit 1: Map of the Mexican Republic).

Before the influenza outbreak, PROAN exported 1.6% of its production (some 7,400 tons per year) and sold eggs to states of the Republic that, after the virus, banned Jalisco eggs. PROAN considered diversifying its hen and pig farms geographically to other states in an attempt to reduce the risk of potential epidemics and to sell in national and international markets where their Jalisco products had been vetoed.

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<sup>1</sup> This case study has been published by the Research Division of Instituto Internacional San Telmo, Spain. Prepared by Professor Miguel Ángel Llano Irusta in collaboration with research assistant Anylu Vidal Romero. This case is intended as a basis for classroom discussion only and not to illustrate any judgment on the adequate or inadequate management of a specific situation.

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During 2016, several institutional egg customers in Mexico followed the example set by their American counterparts and adhered to the initiative of using only cage-free eggs, which promoted animal protection but raised production costs and retail prices. These firms claimed that they sought to offer "healthier" foods and promote animal protection. However, this would force poultry companies like PROAN and its competitors to modify part of their production model and, consequently, increase their costs, which would impact retail prices for end consumers. In general, those in the industry felt that production costs could double, leading to a 40% or more rise in the price of eggs.

Mexico depended on animal feed imports, mainly corn and soybeans, whose price was trending upward in 2017. In parallel, the Mexican peso had devalued against the dollar, and it was feared that it could reach 25 pesos to the dollar by the end of the year.

PROAN was highly integrated (especially in egg production). By 2017, the company was considering whether to reach out more strongly and directly to more egg retailers beyond the Bajío<sup>2</sup> area (like they were already doing in the states bordering San Juan) and offer a wide range of PROAN products, or even to integrate toward direct marketing to consumers by creating proximity stores that would sell a diversified range of fresh products without any intermediaries.

Another question was whether it would be interesting to create a specialized marketing structure to offer the company's full range of products to the HORECA<sup>3</sup> channel, presenting all the group's brands under the PROAN umbrella brand.

Product, packaging, and process innovation had always been in the company's DNA, and PROAN wondered whether it should continue to create value-added meat, dairy, and egg products (enriched eggs, frozen processed, other egg products, desserts) that were more than mere commodities and could be marketed under a differentiated brand name and with higher margins.

## **PROAN: HISTORY AND PROCESSES**

*"What's good can always be better"* was the motto that guided PROAN's 4,500 employees (San Juan was home to some 70,000 people), and the phrase had even been registered as a trademark by PROAN in Mexico, protecting the right to use it for its meats products and processed foods.

Watch PROAN's institutional video to learn more about its history and its different integrated and diversified processes.

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<sup>2</sup> The Mexican Bajío comprised the states of Aguascalientes, Guanajuato, Jalisco (only part of Los Altos), Michoacán (only the northern part), Querétaro, and San Luis Potosí (only the central part).

<sup>3</sup> Hotels, restaurants, and cafés.



### Introduction and history of integration and diversification

San Juan de los Lagos was recognized for its poultry and livestock production and, in particular, for the quality of its dairy products. Its strategic location (relative to the country's three major egg consumption centers: Mexico City, Monterrey, and Guadalajara) and its business principles had driven PROAN's development and growth, as the company had continued to modernize and diversify its products and processes over the past 60 years.

PROAN started its business in the 1950s, raising 500 laying pullets for human consumption eggs. The following decade was a period of changes and innovations aiming to improve their egg production system. In the 1970s, the company diversified and started producing livestock (cattle) and eggs in elevated farms, raising pullets in single-level cages they had designed, and building the first full-cycle swine farm.

In the 1980s, the company was registered under the name Proteína Animal, a variable capital corporation (PROAN) and built one of the largest full-cycle pig farms in Mexico, called La Cadena. In the same decade, they started the Santo Domingo project, which involved building a new pullet rearing plant and purchasing calves to set up a dairy farm in the future.

During the 1990s, PROAN conducted the first tests to produce eggs in 6-tier battery cages. They also built the first "multi-site system" farm in Mexico, which overhauled their pig production, and the first stable of the Santo Domingo Company. Also during that decade, they began the construction of the Santa Maria railroad port that would receive grain and other inputs, and of the new feed mill. Watch the videos below to learn more about the poultry, swine, dairy cattle, and feed plant businesses.



**Poultry**



**Swine**



**Dairy cattle**



**Feed Plant**