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VERTICAL INTEGRATION AS GROWTH STRATEGY: AN ANALYSIS IN THE MEXICAN CORN SECTOR**JOSÉ G. VARGAS-HERNÁNDEZ****RESEARCH SCHOLAR****CENTRO UNIVERSITARIO DE CIENCIAS ECONÓMICO ADMINISTRATIVAS****UNIVERSIDAD DE GUADALAJARA****PERIFÉRICO NORTE 799 EDIF. 201-7; NÚCLEO UNIVERSITARIO LOS BELENES****MÉXICO****JOSÉ SATSUMI LÓPEZ-MORALES****RESEARCH SCHOLAR****ECONOMIC-ADMINISTRATIVE DEPARTMENT****INSTITUTO TECNOLÓGICO DE VERACRUZ****MÉXICO****ROSA PENÉLOPE MARES-GALINDO****RESEARCH SCHOLAR****CENTRO UNIVERSITARIO DE CIENCIAS ECONÓMICO ADMINISTRATIVAS****UNIVERSIDAD DE GUADALAJARA****PERIFÉRICO NORTE 799 EDIF. 201-7; NÚCLEO UNIVERSITARIO LOS BELENES****MÉXICO****ABSTRACT**

The aim of this paper is analyze the strategic trajectory that has followed GRUMA one of the most important Mexican companies around the world. The study of GRUMA's strategies is relevant from strategic and economic scope. In accordance with this the main assumption of this paper is the strategy of vertical integration has contributed in the growth of GRUMA. To achieve this, aim a qualitative method was used, consist in review of data about GRUMA. The results suggest that the vertical integration is an important strategy of growth; however, this strategy is not the only way for growing.


KEYWORDS

growth, strategy, vertical integration.

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1. INTRODUCTION

 Nowadays the business environment is characterized by a globalized and dynamic economy and more competitiveness of the companies. In this environment the companies need to found process of management that contributes to the development of a more efficient management in order to get more benefits.

In accordance with this the strategy is a vital organizational resource that helps to reach the success. In last decade, a number of Mexican companies have been integrated in different process of internationalization. The economic integration is a process through which two or more national markets, which are not integrated, and unitary dimensions considered unsuitable, join to form a single market in a more suitable dimension (Tamames, 1968). This paper analyzes specifically a company that has become world class consolidating in the market shown characteristics, motivations and strategies. Exist a number of strategies which will be shown in the following work in which the reader can get ideas and adapt them to current market events. The aim is to determine the levels of growth and consolidation of the company Gruma from the implementation of the strategy of vertical integration.

Nowadays Mexican companies have had to develop in order to compete in the market. The companies have a different way of ingoing the market. Gruma holds an outstanding performance in the market by not only having the best products, but also the best company to work. This means that Gruma deals with its clients and its employees to have a good result. Gruma has achieved what very few companies manage, to have happy employees and customers.

This paper analyzes the Gruma strategies. Gruma is a leading producer of corn flour and tortillas in the world that is vertically integrated, operating in a lot of places such as the United States, Europe, Central America, Venezuela, Asia, and Oceania, with different brands. The relevance for growth to reach new markets is denoted, and how that was giving through acquisitions and alliances which were given to large companies.

Another important reason that Gruma is world leader is because it is at the forefront of research and development, investing in new technology leading to get a lot of benefits. Gruma is aware that research and development of new technology make the company always evolving. It never remains in the backlog or lagging behind. Currently a firm investing in research and technology can acquire advantages in the market because the environment is constantly changing and therefore require new technology. Gruma has worked all their processes through vertical integration in this paper we speak of the theory from which vertical integration, and we consider that this form has led the company to its consolidation.

The structure of the article is as follows. First, it is presented the company, the industry in which it is located and the background of the problem. Second is the definition of the problem, third the justification and in the fourth place enters the assumptions on which are based the work. In fifth place it is presented the main strategies used to be the market leader. It will depart from the theoretical framework, as Gruma strategies come from theories, which are correlated in this work, and these were used as examples and definitions for the analyst to reach a good understanding of the subject. With this, the importance of Gruma is located, and the reason why is a leader in the Mexican market. On seventh point, it is shown the role of Gruma in the food industry.

In this part Gruma's strategies aimed to link with other firms are analyzed, its acquisitions, the way it progresses in research and development of new technology, raise the search for markets and add diversification strategies are using all of that in the pursuit of efficiency. Finally, some conclusions are presented. The analysis has the objective that the analyst can adapt the article because it is important to know how companies work in the country and to learn how Gruma has managed to reach world levels. Thus can help create new visions and to acquire or adapt these strategies to their companies.

2. BACKGROUND OF THE PROBLEM

Today Mexican companies have managed to build on the international market but this has been relatively on recent years. Twenty-five years ago there were very few studies on the evolution of Mexican companies. As mentioned, today things have changed in a very fast way. Now more studies are conducted as companies begin to grow in order to know the evolution of them.

In Mexico, the process of evolution of the business history and business has been very slow. It started with very little research in the years 1979 and 1980, and as this was happening for 1990 the increase was off causing that currently exist a great interest in new research studies about companies. Of course, this is because there is more training of students who are intended for researchers, although this area has not yet been fully explored and that much remains to be understood in Mexican companies.

It is noteworthy that large companies in Mexico come from the development of new forms of economic organization, and of the general processes of economic modernization. It is understood by this that as the economy has grown companies have excelled. To understand the concept of economic organization Nicholson & Snyder (2010, p 4) departs saying "the study of the allocation of scarce resources among alternative uses."

In other words, economics seeks to meet the needs of people through the production of goods and services (Porter, Lawler & Hackman 1975). Organizations are composed of individuals or groups, in order to achieve certain goals and objectives, through different functions that seek to be rationally coordinated and directed with some continuity over time. Then the economic organization in every time and place is organized differently because it is looking for purpose entities collectively or individually.

The first obstacles that Mexican companies had before were due to wars and independence that faced this country. The war which was during 1810-1821 greatly affected the Mexican economy. A time of independence of Mexico in 1921, the economic recovery was difficult; companies could not develop due to certain factors such as low technological levels, high transportation costs, high interest rates, capital shortages and the high political and social volatility facing the country. For the year 1880 the companies started to grow in Mexico, banks, railroads and mining companies. These were the first large modern enterprises in the country. The reason why it took many years was due to the instability of the country as mentioned above but also because the laws were very slow in transition. What helped the country to grow was the increase in domestic and foreign capital, and therefore to increase foreign investments in new forms of business organization that were introduced in the country by adopting organizational models from other countries, such as England and USA.

The Mexican Revolution also affected the growth of companies in Mexico and the forms of business organization had to be modified. For the twentieth century there were a series of ups and downs in business, as in for the period 1920 -1960 when the growth was very slow, but during the 1960 - 1982, growth was very fast and increased. From 1983 to 1996 economic growth decreases very fast. These changes are due to the state owned enterprises that were privatized hurting the country. This is a recurring description of what happened in those years, which allows the analyst to have a clear idea of the panorama about Mexican companies. By 1990 many Mexican companies begin to globalize or internationalize successfully.

Companies that are transnational in Mexico have a strong presence in domestic and foreign markets. There are a reasonable number of private and national industrial companies, but few that have foreign subsidiaries. Mentioning some of them Grupo Industrial Bimbo, Grupo Industrial Maseca (Gruma), and Femsá (Coca-Cola) these are in the food and beverage industry. Bimbo and Femsá are integrated into a product line. Gruma is integrated into the financial sector as Banorte. What gave impulse to these companies was to create financial industry momentum from privatization of banking which brought benefits giving them advantage over its competitors, acquiring financing advantages in foreign markets.

Gruma is a business group dedicated to the production of corn flour, tortillas, chips and bread. The company began in 1949, beginning its operations in Cerralvo, Nuevo Leon, founding Molinos Azteca, which gives birth to Gruma first flour and cornmeal in the world. For 1970 Gruma ventures into the international market entering to Costa Rica and in 1976 enters the U.S. market. In 1987 installed plants in Honduras, El Salvador and Guatemala in 1993 and 1994 in Venezuela. In 1999 built its first plant tortillas in Europe having three plants in England, Italy and Holland. In 2005 enters to Oceania with two plants and in 2006 comes to Asia.

In addition, GRUMA has operations in the United States, Mexico, Central America, Europe, Asia, and Oceania. GRUMA is headquartered in San Pedro Garza García, Nuevo León, Mexico, and has approximately 18,000 employees and 79 plants (GRUMA, 2015). This fact shows the size of the company that not only is string in Mexico but another parts of the world.

3. DELIMITATION OF THE PROBLEM

Gruma has become one of the most important companies in Mexico. To get to the delimitation of the problems that it has been seen in the economy that as the country grows the companies can advance. Nevertheless, this is not the only way that companies can grow in the introduction of the article, it also mentioned that companies grow due to the strategies implemented. It will be observed that specifically the strategies that have worked with Gruma and it are analyzed how the current economic boom also allows companies in the country.

Starting with the question which are the levels of development and consolidation of the company Gruma from the implementation of the strategy of vertical integration in all his operations?

4. JUSTIFICATION

One of the main problems challenged by businesses today is absence of technological advances in production. Thus companies have failed to address the new business environment each day more competitive. Here the delay in the organization notes that the companies do not renew providers to continue ongoing production performance and lack of training of not qualified staff makes inefficient the company. Another pattern is that marketing companies here are detained. Another issue here is the financial support that faces several problems such as the lack of funding, tax and insurance regulations. Another problem facing business is export procedures and unfair practices in foreign trade.

To develop this research in the first place shows that there is currently an increase in the study, development and training of researchers to help the country stand today. Also it is providing knowledge that not only complements previous knowledge. Development of new knowledge allows the emergence of new ideas since it is intended that more people can gain more knowledge, and apply it in the environment, as they speak of a transfer of knowledge.

At present the companies have very high demands, as when competition increases, companies need to implement strategies to help gain a large market share, through strategies which can give companies competitive advantages. In the case specific of Gruma, it has key strategies, such as offering products and services that have the highest standards of quality, focuses on understanding and completely satisfy the needs of its customers, continuously strengthens its brand, develop research technologies, creates an advantage competitive and is constantly innovating.

In the case of technology, GRUMA has developed a technology division, which is in charge to the next functions: Research and development in the milling of corn and tortilla production; engineering, design and building of plants, supervise the design of plants among others (GRUMA, 2013). The above probably has worked together with the vertical integrations as a strategy of growth.

To understand that companies can develop technology is important. As it is intended that based on research, new entrepreneurial companies or companies that are already on the market may come to be successful because it is not only important to have all resources, but also the implementation of strategies which may use different companies. In this way, firms reach significant growth. The article wants to show an example of a successful company in the national and international market.

5. ASSUMPTION

In order to analyze the strategy the main assumption of this paper is: The strategy of vertical integration has contributed in the growth of GRUMA.

6. THEORETICAL FRAMEWORK

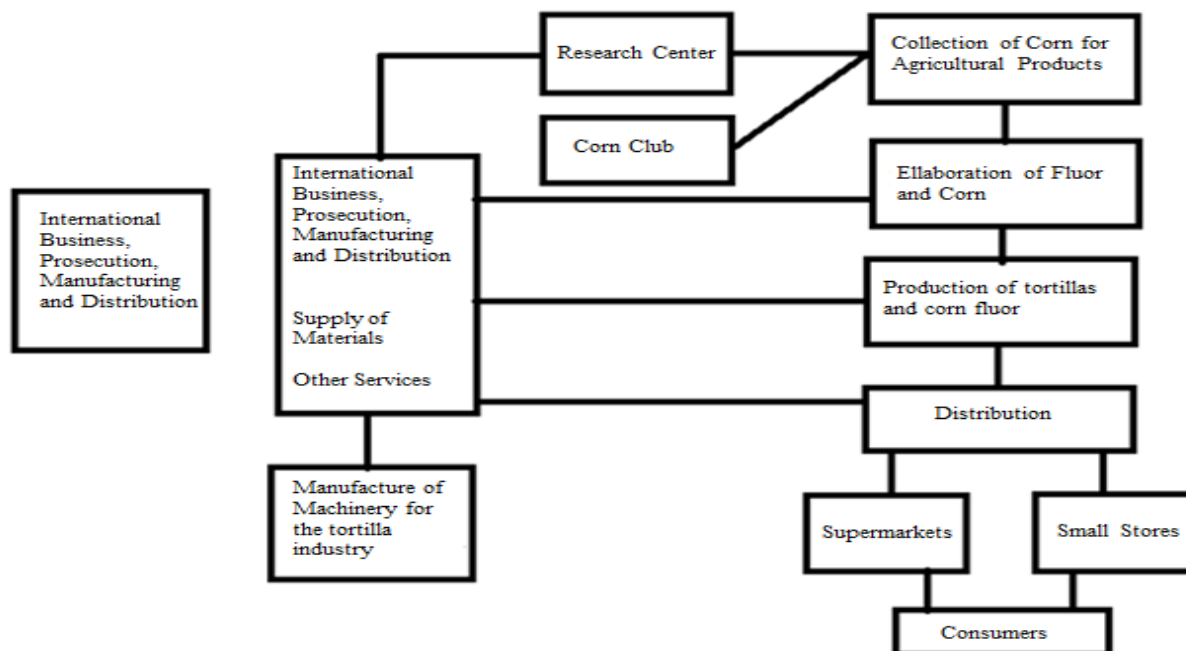
GRUMA has followed several strategies of growth, such as: innovation in products, development of products, development of process, vertical and horizontal integration (Vargas- Sanchez & Perez- Osnaya, 2014). In order to understand the development of GRUMA in this paper we study the vertical integration due to is considered the most important nowadays.

Vertical integration is entirely on the company and nothing is integrated. Being intermediate goods to final goods in diversifying processes which are owned by the company, vertical integration has contributed to the growth and consolidation of the company Gruma. As Williamson (1975, 1985) argues, theory of transaction costs are costs that induce vertical integration because of uncertainty about the future, which implies incomplete or imperfect suppliers of inputs contracts; uncertainty in the negotiation, to avoid problems of opportunism or strategic behavior; and the existence of specific assets or investments. Likewise, integrated companies will do better than an unintegrated competitor if there are high profits in the value- added chain (Klein, Crawford & Alchian, 1978).

Furthermore, the benefits of vertical integration come from the greater capacity it gives organizations to control access to inputs (and to control the cost, quality and delivery times of those inputs) (The Economist, 2009). These benefits maximize the profits of the company due to the increase of the efficiency in his operations. For this the vertical integration is a tool for the competitiveness of the organization.

Vertical integration as Gruma incurs in a number of vertically integrated processes, it is clear that this could be replaced by the market through transactions but these are guided to one company. Williamson (1975) in Market and Hierarchies has contributed to the theory of transaction costs, being three major factors to which they are attached. The first is that contracts are incomplete or imperfect. The second is that there is uncertainty in the agreements, and third, investments have suitability for use of third parties.

FIGURE 1: VERTICAL INTEGRATION GRUMA



Source: Based on data from Gruma (2014)

Gruma Strategies to be at a high level has been having long-term vision, focused its vision for the future so as to be constantly improving. Another strategy is technology company that develops its own technology thereby be able to head, something very important the brand value. Gruma's strategy strengthen its brand, as to the distribution of their product works very efficiently, already mentioned at the beginning of which is one of the best companies to work for in Mexico. One of its fundamental Gruma's strategies is the quality of integration of workers and their products.

The implemented strategies of GRUMA are considered as factors of success in the literature (Rubio- Bañon & Aragon- Sanchez, 2002). It is possible that some of the strategies had contributed more to the success than other; however, this issue is not clear. Likewise, it is probably that not only the strategies of success are not the only factor of success, for this it is important to study in depth the case of GRUMA.

Likewise, as a company, Gruma bases its leadership through its vertical integration, starting from the collection of maize, consecutively transforming in flour and building machinery for making flour tortillas. Hence, Gruma produces the tortilla and then the final distribution occurs to the end buyer. For Gruma its formula of success has been vertical integration since as business is from the beginning to the end in the development and distribution of its product because it is a way to avoid costs, and thus, being a very efficient alternative. Coase (1937) states that the vertical integration is associated with the decision to make or buy, that is, produce the necessary inputs for production or buy them in the market and distribute the products directly or through specialized firms. This is because firms incur to high transaction costs. Then, to avoid transactional costs is through vertical integration.

7. CONTEXTUAL FRAMEWORK

This work is done to develop the knowledge of the analysts; the investigated company is Gruma, which today is one of the best companies in food industry in Mexico. Globalization over time has favored agribusiness companies. This study takes an agribusiness firm to show vertical integration and how the application of this theory can achieve market efficiency.

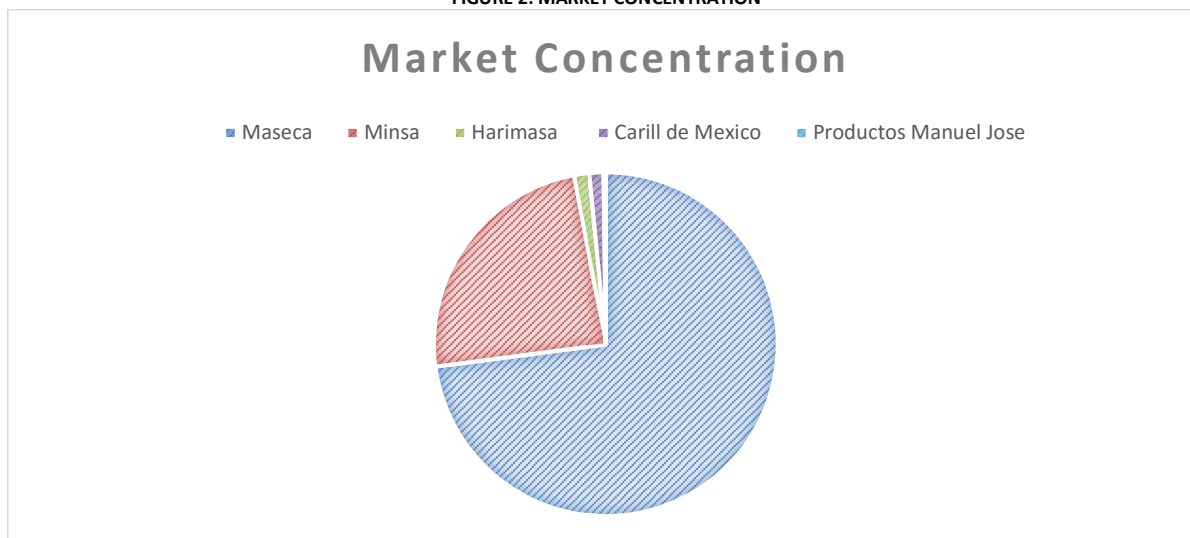
Gruma begins in 1949 when Roberto González Barrera and Roberto M. González founded the company. Its operations are initiated in Nuevo Leon, Mexico, creating a solution to the conservation of mass Nixtamal that is used in making tortillas, facilitating the manufacture of mass, since only the mass and water is needed to prepare the tortillas. The first floor Molinos Azteca began with 45 employees producing 150 tons per month.

In 1950 emerged Maseca brand Masa Seca, which means dehydrated corn meal concept was born. The second production plant is created in Acaponeta, Nayarit. In 1960 the company began its expansion Gruma, opening 7 new flour mills, while positioned in the market for its quality. In 1973 begin to internationalize entering into operations in Costa Rica. This is where the company began to develop high-speed machines, produces tortillas with soy, showing that the tortillas do not lose their properties and achieving a high amount of routes distribution. In the middle of this decade, Gruma entered to United States acquiring the Mission Foods plant in California.

In the international context GRUMA starts their internationalization in 1973 a plant in Costa Rica was opened. Many years after in 1977 GRUMA acquires a plant in Texas. These two facts increased the presence of GRUMA in the international markets and was the starts of a process of internationalization that continues today. In 1980 acquired 10 floors more in United States and later that year established itself as an international company.

Likewise, in the next decade, in 1992 GRUMA diversified his business, acquiring 10% of BANORTE an important bank in Mexico. In addition, In 1998 makes the list Gruma action in New York Stock Exchange. In 2000 opened the first floor of tortillas in Coventry, England. By 2004 expand in Europe. In 2006 it expanded to Asia. In the years following the 2006 is involved in the development of new technologies at the forefront of innovation and being one of the best companies in product quality. Today in Mexico the flour and tortilla production exceeds 1.5 million tons, has 14,500 employees and 74 plants. In addition, the corn is the planet's most produced grain. In the case of Mexico plants around 7.2 million hectares of corn every year. Last year its farmers produced 21 million tonnes of corn, or about 3 % of global production. But the country consumed roughly 30 million tonnes, this difference is corrected with U.S. imports (Reuters, 2015).

FIGURE 2: MARKET CONCENTRATION



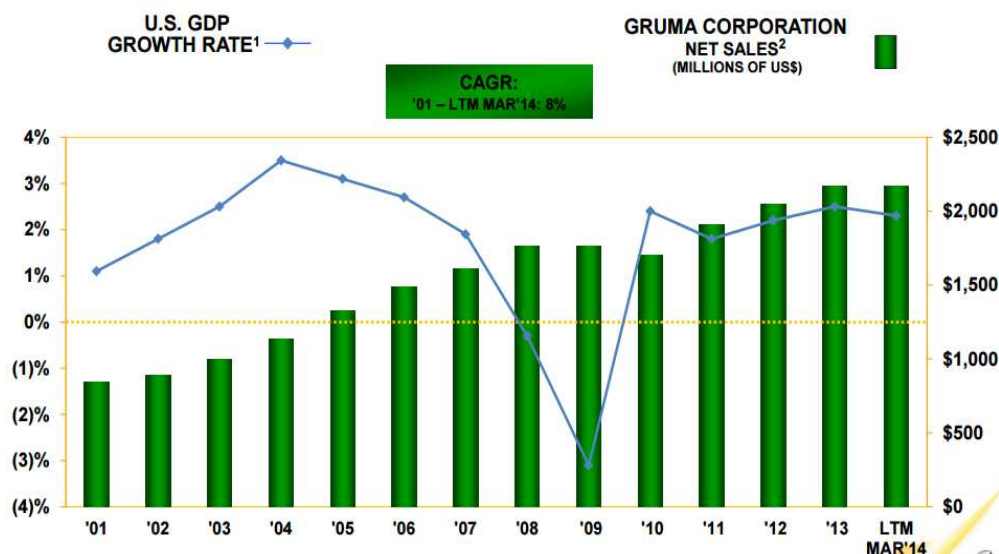
Source: Own elaboration with data from INEGI & SE. (2010).

The Figure 2 shows the market concentration of the corn meal industry. The concentration is highly concentrated five companies controlling the market. En 2010 according to the Analysis Value Chain Corn - Tortilla, production of corn flour reached 22.8 million tons concentrated in few companies: Grupo Industrial Maseca (71.2% market share), MOH (23.54%), Harimasa (1.4%), Cargill de Mexico (1.3%), Molinos Anahuac (1.1%) and José Manuel Products (0.2%), SE & INEGI (2010). It can be realized that after Maseca (Gruma) is Minsa, a company which is in direct competition, as it has a high concentration in the corn industry.

This study on Gruma's strategies is important not only to obtain information but also the analysis is important since the tortilla is the second most important good in the consumption basket in Mexico being daily per capita consumption of 157 grams of it according to the National Survey on Household Income Expenditure (ENIGH, 2010). However, the National Assessment Council (CONEVAL, 2012) estimated that daily consumption of tortilla per person in rural areas was 217.9 grams, in contrast to urban areas whose indicator is 155.4 grams. With these data, it is estimated that tortilla consumption in the country in 2010 was 6.9 million tons of tortilla. Calculating that each Mexican consumes an average of 123 Kg. of corn annually, which is well above the world average (16.8 kg per person).

At this time, the corn industry has an advantage that becomes very appropriate for the company with the highest market concentration, since this year 2014 prices will be very low due to inventory accumulation in countries producers because Mexico imports corn. By December of 2012 to December of 2013 the price of a ton of corn, white and yellow reported a 40% reduction from \$ 284 to \$ 170 according to the Consultant Agricultural Markets Group. And the grain is expected to drop further. Globally corn has a total of 964.2 million tons in the cycle 2013/2014. In Mexico it is estimated that in the cycle 2014-2015 will break the barrier of 21 million tons of production, i.e. it must import corn to meet demand and the decrease in corn costs per ton becomes a benefit to the corn industry as there is higher profit margin.

FIGURE 3: SALES OF GRUMA 2001-2014



Source: GRUMA, 2015.

The Figure 3 shows a comparative analysis of GRUMA sales. These results indicate that GRUMA increase his sales in the last ten years. Likewise, it is important to point out that is possible that the reason for this is the vertical integration. The reason of this assumption is that one of the advantages of vertical integration is additional profit margins or the ability to charge lower prices on final product (Blois, 1972).

In Mexico Gruma has had monopolistic practices in the production, marketing of the dough and mass, tortillas, corn flour and wheat, input essential to the national diet, as the company Gruma bought Agroinsa of Mexico. The union generated barriers to entry of competitors, such as investments in plants, distribution channels and the ability to negotiate the purchase of corn. What make a monopolistic market are generated and controlled prices and market conditions.

Gruma increased market concentration, and the effect of reducing the level of competition in the Mexican market. It can be observed that buying Agroinsa is a strategy of Gruma to consolidate further in the market. It is also to be noted that this is a great strategy. However, monopolies on Mexican soil are banned so it's an excellent strategy but not very accessible as the Federal Competition Commission (CFC), is always watching for this not to happen.

8. ANALYTICAL METHOD

The analytical method is the method of the following research and through the composition of the following article has made it to the analysis of the object of study, since this work is divided into parts which give a clear picture of the causes, the nature and effects by Gruma. It is one of the best food companies, not only that it also has the highest concentration of market corn industry. The company analysis allows a clear view on important strategies for studying by students, academics, business and government.

9. CONCLUSION

The main aim of this paper is analyze the strategic trajectory that has put to GRUMA as one the best Mexican companies in Mexico. The country has a lot of manpower and natural resources that makes it very attractive. Recent business expansion in Mexico is due to the need to reach new markets and the liberalization of trade in the 90's. All this has been given in terms of innovation and technology that companies are required to develop and implement for attaining position both domestically and externally.

For Gruma, as mentioned repeatedly, its fundamental strategy has been the vertical integration, claiming to reduce transaction costs, decreased marketing expenses, certainty in supply of products and better control in the distribution process. These factors has caused consolidation in the Mexican market and has prompted the international presence of GRUMA.

However, even exist evidence that GRUMA has growth in the last years. It is in an oligopolistic market structure and has monopoly power in the Mexican corn market. This means that for the Mexican consumer market is not very good, because if there is a monopoly there is no more firms and undertakings which causes production required is not reached to supply the Mexican market. This is when it is necessary to raise awareness and to think that these studies are important not only for businesses but also for regulatory control institutions that create these structures. Thus the best way to present a company's growth is through innovation and technology, as it is one of the reasons why other countries are developed.

Finally, it is true that vertical integration had contributed to the success of GRUMA local and internationally. However, GRUMA not only have followed this strategy, as company in constant movement and development the strategies as internationalization and an adequacy management of the finances have contributed too. The success of GRUMA is not only produced by unique strategy, is a mix of several of this. In the future it is important to analyze specifically each strategy and afterwards analyze comparatively together.

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