Mergers and acquisitions strategies for market penetration in new countries: The case of Alsea Group

José G. Vargas-Hernández
University Center for Economic and Managerial Economics, University of Guadalajara
Periférico Norte 799 Edif. G.201-7, Núcleo Universitario Los Belenes.
Zapopan, Jalisco, 45100, México
Tel: +523337703340 ext. 25685, jgvh0811@yahoo.com, josevargas@cucea.udg.mx,
jvargas2006@gmail.com

Michelle Ángeles Pérez Martínez
University Center for Economic and Managerial Economics, University of Guadalajara
Periférico Norte 799 Edif. G.201-7, Núcleo Universitario Los Belenes.
Zapopan, Jalisco, 45100, México

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.

Keywords: Acquisitions, Global Standardization, International Strategy, Mergers

JEL classification: D220, D430, D470, M160, M210

1. 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 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.

2. 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).

That is why the strategy of global standardization is an option for companies that want their way. However, as the great strategist Sun Tzu said, "Know yourself, know your opponent, fight 100 battles, get 100 victories", it is essential to know the company, its strengths, capabilities and weaknesses, and base it then to develop its strategic plan. 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.

The strategy of global standardization allows the company to increase its innovation, quality and efficiency. This strategy is the search for the reduction of bureaucratic costs of transfer of resources, usually in this type of strategy it is developed a group structure which allows expand the picture of the activities to be carried out and where, so that efficiency is considered a privilege (Hill and Jones, 2011). Work under this structure means creating a central office to coordinate the activities of the company.

Once the strategy has been established to follow when analyzing input mode comes, there is various ways to penetrate a market, and may be through the creation of new companies: This would mean starting from scratch. It involves generating an investment in the organization, areas, personnel and administration. Besides, this company even created under the umbrella of the corporate would have some independence. Collective enterprises, consists of a team, where two or more companies join forces and share resources. Limit it should be set at the beginning of the contract, so the companies know where it is allowed to meet each other, setting limits, for thus protect their resources. As a risk of this method it is stealing technology and most companies usually end badly.

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. This method positions the companies in the market, create new competitive advantages in their quest for leadership globally extending through the acquisition of companies (Luna, 2010).

Mergers and acquisitions mainly seek to bring together resources to enable them to companies involved in growth. But conflict can be generated in this type of method, because usually the company with greater power, exercise control over that has less, even in situations that begin as mergers may end up becoming acquisitions. Previously mergers and acquisitions gave more by US companies. However, the market diversification and globalization in response to other countries have exercised this method. Developed countries such as BRICS are considered as main recipients of European business investment that they have seen in these countries the opportunity to market (Feito-Ruiz and Mendez-Requejo, 2011).

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. This brought the country to give an emerging change their policies to allow new business coexistence, placing companies belonging to government provision of public offerings generating privatization of certain sectors. According to Coelho and Castillo-Giron (2010) for Mexico, conducting mergers and acquisitions it is considered as a response to three points: competitiveness, environmental changes and capital market inefficiency.

Para México la apertura a nuevos mercados se generó a partir del TLC (Tratado de Libre Comercio) que aunque algunos consideran que el país no se encontraba en condiciones de participar, otros consideran que abrió la oportunidad para que nuevas empresas entraran y
generaran un mercado más competitivo, impulsando a las empresas a invertir en procesos de innovación y tecnología. Esto trajo consigo que el país diera un cambio emergente a sus políticas, para permitir una nueva convivencia empresarial, colocando empresas que pertenecían al gobierno a disposición de ofertas públicas generando así la privatización de ciertos sectores. De acuerdo con Coelho y Castillo-Girón (2010) para México, la realización de Fusiones y adquisiciones se considera como respuesta a tres puntos: competitividad, cambios del entorno e inefficiencia del mercado de capitales.

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. It was also used as a mechanism for reducing transaction costs to enter through a company already established which reduces both risk and costs that would be generated if independently entering. Either vertically acquisition of companies also reduces transaction costs (Williamson, 1985).

Changes in the environment: If the economic environment changes and the indebtedness of a company grows, merges or be acquired by another company may be the solution. Even when the environment becomes more competitive companies, seek others with whom to share resources. Here's another solution, then it generates a feedback technology.

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. Trans 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 operation of restaurants in Latin America and in Spain. It is aimed at 4 segments, fast food, coffee shops, casual dining and family restaurant, thus covering different socioeconomic levels. Its mission is "exceed customer expectations" purpose "to be the best and largest restaurant operator ..." (Annual Report, 2014, page 61).

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.
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. Thus, Alsea becomes the sole bearer of the brand throughout Mexico. This represents the first acquisition made by Alsea group.

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. By 1992 created the first distribution center in Mexico, Distributor and Importer of Alsea (DIA). For 1999, Alsea Group joins the Mexican Stock Exchange, beginning its public offering.

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. This major acquisition brought Alsea great opportunity to grab a large segment expanding, the middle class; they are mostly those who frequent the Starbucks coffee shops. Thanks to the acceptance of Starbucks in the market and the growth thereof affects their demand, Alsea begins to generate goals, creating a vision of opening about 50 Starbucks year.

In 2005, Alsea entered the casual dining segment in 6 states in Mexico (Mexico City, Puebla, Queretaro, Hidalgo, Morelos and Mexico State) 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, Alcea 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](image)

Source: Based on data from Sánchez E. (2011)

These projections were made taking into account the projected data for industry to undertake the company regarding the issue Euromonitor Consumer Food Service in Mexico 2010, regarding the percentage share of the market for food prepared in Mexico. In 2012 Alcea Group ingratiated with getting the hallmark of Socially Responsible Company and in the same year added the restaurant brand Italianni's on their menu, as a restaurant in the casual segment dining, which emits a capital of 1,150 million pesos in the Mexican market. After demands by inconsistencies, finally the acquisition is carried out favorably, and predicting a great battle for the most representative of Alsea rival, CMR (Corporacion Mexicana de Restaurants), according to Ugarte (2011).

![Graphic 4. Market food prepared in Mexico](image)


2014 was an important year for Alsea Group because it represented a watershed in for the start of new markets. First, to the May 5th through the Mexican Stock Exchange (Bolsa Mexicana de Valores, BMV) Alsea confirms its acquisition of VIPS restaurants throughout the Republic. After it was authorized the processing by the Federal Competition Commission (COFECE), who for the purposes of the acquisition asked group Alsea remove exclusivity clauses, not condition the rental leases in shopping centers (FORBES, 2014).

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>
<thead>
<tr>
<th>RESTAURANT</th>
<th>No. of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOMINOS</td>
<td>604</td>
</tr>
<tr>
<td>STARBUCKS</td>
<td>456</td>
</tr>
<tr>
<td>BURGER KING</td>
<td>438</td>
</tr>
<tr>
<td>CHILIS</td>
<td>47</td>
</tr>
<tr>
<td>CALIFORNIA PIZZA KITCHEN</td>
<td>22</td>
</tr>
<tr>
<td>P.F. CHANG’S</td>
<td>19</td>
</tr>
<tr>
<td>ITALIANI’S</td>
<td>66</td>
</tr>
<tr>
<td>VIPS</td>
<td>259</td>
</tr>
<tr>
<td>EL PORTON</td>
<td>85</td>
</tr>
</tbody>
</table>

Source: Based on data from ALSEA (2014).

Major acquisitions achieve Alsea Group in Mexico. But is not limited to Mexico, for 2006 Grupo Alsea decides to internationalize and this is how acquires the right of Burger King in Argentina and Chile. Following its expansion for 2008 with the purchase Domino's Pizzas 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. Thanks to the agreement made with Nutresa which is the creation of a joint venture in which Alsea will hold 70% equity and 30% Nutresa. This agreement includes an exclusive agreement of operations until the year 2033 with one goal opening around 51 stores within the next five years. The variety is offering roasted espresso and packaged locally produced coffee, as a major restrictions by the Colombian government is no cafeteria can sell roasted coffee or grown abroad within Colombian territory. Starbucks in certain way has formed ties with the Colombian coffee industry, because from its beginnings in the 97 with the creation of its brand VIA instant coffee roasted coffee in Colombia.

In this case, due to Colombian institutions, market penetration in Colombia had to be generated through the creation of "joint venture" with the company Nutresa leader in roast and ground coffee in the country. With a market share 55.8% and 41.6% market share in terms of soluble coffee (Nutresa Group, 2015). In this way, Alsea considers in a very clever way different market penetration, integrating its stores the delicious taste of Colombian coffee is the only that can be sold in Starbucks coffee shops. Well worth noting that Colombia is a country with roots coffee because this is its identity. However, neither the threats of boycotts on the opening of the brand of "Mermaid" prevented this opening, thus forming long lines at its opening and thereby motivating the opening of around 50 stores in the country over the next 5 years (Wallace, 2014).

On the other hand, 2014, after the great acquisition of VIPS in Mexico, Alsea decides to go out to conquer the European market through the acquisition of 71.76% of Grupo Zena according to data obtained by Forbes (2014). The acquisition includes a range of 430 restaurants in Foster's Hollywood, Cañas y Tapas, La Vaca Argentina e il Tempietto brands which are owned by Zena group. 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 pesos a credit throwing by five years.

**Graphic 5. Units in Spain**

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

4. **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 dealings to businesses, but what is it that makes Grupo Alsea attractive for these brands that allow it to purchase from your management?

Alsea Group has a strategic Menu, where its main areas to address are very well established.

- **A. 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.
- **B. 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.
- **C. Synergy:** Making critical mass in each management area.
- **D. Results:** A profitable and sustainable growth which ensures the company.
- **E. Social responsibility:** Grupo Alsea is known to have a commitment to society, which is why it is recognized as the best responsible practice in the sector.

But that's not all. Alsea group has an attractive business model that offers support for each of its brands across 5 areas of support, supply chain, finance, human resources, technology, real estate and development. Also it has corporate governance which it is divided into three parts: Administrative Board, committee of internal audit and corporate practices committee, made up of 10 adviser and 5 independent and an equity advisor. Incorporating independent directors is for the purpose of generating fairness in company decisions.

As part of Alsea Group responsible both to society as formal institutions, has decided to incorporate the nutritional traffic light brands, under the phrase "food and beverage blend perfectly with the pleasure of responsible consumption". So it has entered calorie information on menu boards, and provides nutrient audit to all and each of its brands, in addition to quality processes that ensure their products as excellent for consumption wellness.

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. As well as part of their training, all its employees received anti-corruption reporting something they call a code of conduct for the purpose of creating awareness among its collaborators and have more ethical and responsible employees. Also 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.

All this is part of the strategy that makes use Alsea group with its franchises, which ensures a correct use of the mark, an excellent market management to ensure the effectiveness of its processes and especially that becomes profitable its brands. This is why and for better management and maximizing the potential of geographic growth and its good economic returns. 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.

5. 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.
References


