Mexamerica, Inc. Mexican Multinationals In The United States

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Carlos Slim (CompUSA), left, Roberto González Barrera (MASECA), center, and Lorenzo Zambrano (Cemex), right: three of the most successful Mexican business leaders in the United States.

When negotiations began for the North American Free Trade Agreement, many thought that the treaty would be a one-way street in terms of foreign direct investment and that the business possibilities for Mexican companies would focus on exporting goods and services. And it was no wonder: the flood of U.S. investment between 1991 and 1994 surpassed the total for the previous 100 years, and Mexican companies' scant response seemed to confirm the first impression.

Analysts also argued that the U.S. and Canadian markets were the world's most open even before the negotiations, and if Mexican companies did not invest in them under conditions of trade protection, what would point them North under conditions of free trade?

With this limited viewpoint, the argument about Mexican investment generating jobs in the United States was never used to counter the pressure and lobbying against NAFTA by U.S. unions.

Fortunately, eight years after it came into effect, on the NAFTA horizon there is a clear, not-to-be overlooked impact of direct investment by Mexican companies in the U.S. and Canadian markets (heretofore to be called "NAFTA markets").

Currently, about 30 Mexican groups and companies have direct investment and an important level of operations in NAFTA markets. For this article, I have picked the 15 most important from the point of view of the size of their industrial or commercial businesses, their revenues, assets and investments from 1994 on and the weight of their NAFTA operations in comparison to their whole business.

Another criterion for selection was the possession and control of stocks in the businesses located in the NAFTA region, excluding the groups that participate in them as minority partners through strategic associations and joint ventures.

This small but select club of 15 companies that I have dubbed Mexamerica, Inc. is representative and serves to illustrate the beginning of a current of investment and positioning of Mexican companies in NAFTA markets that will expand to a hundred before 2010 and, of course, will have a much more important participation in business in North America.

By no means does this signify that their current participation amounts to nothing more than a hill of beans: in 2001 the subsidiaries of Mexamerica, Inc. reported earnings of almost U.S.$17 billion, assets of over U.S.$18 billion and an accumulated investment in their NAFTA operations of around U.S.$15 billion. In 2001 alone, Mexamerica, Inc.'s new investment surpassed U.S.$3

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THE FIFTEEN LARGEST MEXICAN COMPANIES OPERATING IN THE UNITED STATES

No.	Company or Group	Revenues Portion Subsidiaries in the U.S. and Canada	Operating Net Profit Assets Sector	Accumulated 2001	Var. % 2001/2000	No. of Employees of Total Revenues (%)	Profit 2001	Profit 2000
1	Grupo Slim E-commerce 822	US Comercial (CompUSA) Tenedora US and Condumex, Inc.	Retail, systems and computer equipment	4,129.7	2.0	15.5[1]	(123.3)	40.2
2	Grupo México*	American Mining Company and Asarco, Inc.	Mining and metal working	2,435.0	25.4	80.5	23.3	311.7
3	Cemex*	Cemex, Inc.	Cement and concrete	1,872.5	143.6	29.0	351.1	183.1
4	Vitro*	VVP América, Vitro Packaging and Crisa Corporation	Construction glass, containers and auto	1,568.7	18.9	52.3	34.5	nd
5	Grupo Bimbo*	Bimbo USA	Bread and pastry	1,284.5	na	30.3	(4.9)	(8.0)
6	Grupo Alfa	Alpek and Nemak	Petrochemicals and autoparts	1,204.0	42.2	24.2	50.0	nd
7	Gruma	Gruma Corporation	Food: flour and packaged tortillas	894.8	4.0	45.8	57.6	41.4
8	Grupo Imsa	Glass Steel, VP Buildins and Ges America	Covered steel and metal products	692.8	38.3	30.1	15.7	10.4
9	Savia*	Seminis Inc. Bionova Holding Corp.	Agricultural biotechnology	672.6	(3.1)	95.8	(53.8)	(74.1)
10	IUSA*	Cambridge Lee Holding and United Copper Industries	Metal products and electrical equipment	518.9	(16.8)	60.3	5.0	24.5
11	América Móvil	TracFone	Mobil telephone services	472.6	26.7	10.4	(347.4)	(213.4)
12	Corporación Durango*	Durango and McKinley Paper	Paper and packing	385.6	(25.0)	36.7	nd	22.2
13	Grupo Accel	Elamex, Inc., Tropical Sportswear International, Flankin Connection	Textiles, garment and candy	179.3	(17.7)	81.7	nd	nd
14	Grupo Cementos de Chihuahua*	GCC of America, Inc.	Cement and concrete	157.4	33.6	41.6	21.1	2.3
15	Interceramic*	Interceramic, Inc.	Ceramic products	113.6	(0.4)	39.2	nd	nd

Numbers in millions of U.S. dollars except employment figures and business units.

Source: Direct reports, company quarterly and yearly reports and other public documents.

Research: Leopoldo Eggers Muñoz, Antonia Arellano Benítez and Raúl Olmedo Gutiérrez.

billion, a much higher figure than the annual investment in many small nations in Central or South America or the Caribbean.

In terms of employment, the figures are no less impressive if we consider that Mexamerica, Inc.'s 55,000 direct jobs generate about 400,000 indirect jobs related to these Mexican-owned companies.

SURVIVAL OR NAFTA

It is worth asking what spurred these groups to accept the challenge to go into the competitive U.S. markets? Some NAFTA experts think that the treaty was not the direct cause of the impulse to invest from South to North, but they admit that its effects on the economic environment in the short and medium term did create institutional and macroeconomic conditions that encouraged the com-

2001	2000	2001	Var. % 2001/2000	Investment 1994-2001	2001	Var. % 2001/2000	Business Units/Coverage
(26.0)	(66.3)	2,268.7	14.8	2,300.0	14,721	(28.9)	221 stores
(195.1)	348.8	3,587.8	0.7	2,939.0	3,280	nd	10 plants
nd	nd	4,827.4	14.9	2,970.0	5,273	28.6	nd
nd	nd	296.5	nd	350.0	3,280	0.1	16 plants 226 service and dist. centers
nd	nd	1,147.8	166.6	1,156.0	9,276	nd	22 plants
nd	nd	635.0	nd	454.2	3,000	87.5	5 plants
11.3	9.2	738.7	0.0	363.1	5,030	nd	18 plants 3 dist. centers
nd	nd	663.7	33.6	491.0	4,398	nd	nd
(152.8)	(89.4)	835.4	(16.3)	1,019.8	2,750	nd	70 laboratories 560 patents
(2.0)	8.6	223.2	1.5	110.0	830	nd	nd
nd	nd	2,630.4	233.6	1,536.0	940	(42.0)	1,913,000 subscribers
5.4	nd	374.0	(4.5)	306.8	1,301	3.2	nd
2.1	17.5	133.4	(23.6)	156.0	310	nd	nd
nd	na	332.1	194.4	407.0	269	nd	11 plants 6 dist. centers
0.7	(74.9)	69.9	1.4	55.0	606	0.0	nd

NOTE: * Includes revenues from U.S. and Canadian subsidiaries and exports to U.S. and Canada.
[1] Portion of total revenues vis-à-vis all companies controlled by the Slim family.

KEY
na = non-applicable nd = no data available

panies to begin their NAFTA adventure. Of the 15 groups selected for this article, Grupo Maseca (Gruma), Cemex, Grupo Accel, Interceramic and Grupo Vitro made their move before NAFTA was negotiated and signed. Grupo Savia, Cementos Chihuahua (GCC), Grupo Bimbo, Grupo IUSA and IMSA arrived in the first years after it came into effect. Corporación Durango, Grupo Alfa, Grupo México and the Slim family companies (U.S. Comercial and América Móvil) arrived in the final years of the last decade and the first of the current one.

Other Mexican companies with a direct stake in NAFTA territory are Grupo Industrial Saltillo, Grupo Desc, Televisa, TV Azteca, Grupo Lamosa, Grupo Gigante, Famsa, Del Valle, Transportación Marítima Mexicana, Grupo Posadas, CIE and Softek, but their operations are very recent, and until now, they represent only a small or marginal portion of the mother companies' total business.

Success Stories

Among the pioneering companies, the most notable cases are Gruma and Cemex.

The Universal Tortilla

Roberto González Barrera's business acumen and vision has allowed him to see the enormous potential of the Hispanic-Mexican market for the consumption of corn flour, tortillas and other similar products like *tostadas* and *totopos*. That vision took him to the United States in 1977, 18 years before NAFTA. His company, that took the name Gruma Corporation, had everything it needed to be a winner: a profound knowledge of the importance of corn consumption in the cultural profile of Hispano-Mexicans and a complete command of its own innovative technology for making corn flour, tortillas and other supplementary products.

History proved him right. Today, the U.S. market for tortillas and derivatives is valued at an estimated U.S.$1.9 billion; Gruma's share of that market is 25 percent, and it has achieved an 80 percent share of the corn flour market in the last two years.

Gruma Corporation is the world's largest producer of tortillas; it is Gruma's most important business and one of the most consolidated and profitable. Among its strengths is the projection and positioning of its brand names Maseca, Misión and Guerrero, all leaders in the U.S. market. Its importance for the group is such that it is in charge of expansion into the European market, which it began a year ago when it set up a tortilla plant in Coventry, England.

Cybernetic Cement

Cemex's entry into the U.S. market in 1985 coincided with Mexico's entry into the General Agreement on Tariffs and Trade (GATT) and, above all, with another visionary, Lorenzo Zambrano, coming on board at the company. Under his leadership, Cemex restructured and began its impressive international expansion, which has made it the world's third cement producer, perhaps the most respected and admired of all.

But Cemex is much more than that. It is the most spectacular example of how, even in a commodities industry, enormous amounts of value added can be generated: Cemex's contribution to its sector has consisted of transforming cement into an industry of solutions: operational, financial, technological, logistical and commercial.

Its initial steps into the NAFTA markets started with the need to attend to the enormous U.S. market from the inside because of the high anti-dumping tariffs the government levied on Mexican cement in the 1980s and that continue in effect today. With a current production capacity of 13.2 million tons, plus what it adds this year, Cemex, Inc. is already the largest cement company in the United States and the Americas.

With Caution

The slow expansion of Mexican companies toward the NAFTA markets is closely related to how very difficult they are. They are enormous, very competitive markets; their consumers demand quality, low prices and service; they have low brand-name loyalty and are highly sensitive to technological advances and permanent innovation in design, materials and creative publicity strategies.

Broken Glass

Mexican investors still remember a few spectacular failures like Grupo Vitro's early 1990s acquisition of Anchor Glass Container, which went bankrupt in 1996 after losing the market for bottling carbonated drinks to the blossoming PET resin industry.

The losses and bankruptcy of Anchor Glass were a harsh blow to Vitro, which was barely able to recover and reformulate an expansion strategy in the NAFTA markets, although, of course with a business plan much more focused on manufacturing and selling glass products for construction and automobile glass in segments that require greater specialization, value added in their products and client service.

Political Risks

Another case that illustrates NAFTA markets risks is the Grupo Savia experience with their division of agricultural biotechnology products headed up by Séminis and Bionova, Inc. It is common knowledge that well-known businessman Alfonso Romo bet a veritable for-

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tune on his acquisition of an enormous global network of research laboratories that developed vegetable seeds; in a few years, it had become the world's number one producer of modified vegetable seeds.

Grupo Savia's problem was that it did not foresee the strong resistance these products would encounter from environmentalist organizations opposed to the use of genetically modified seeds. These groups' activities have been forceful enough to stop the expansion of modified seed use, and this has severely limited Grupo Savia's business potential and viability.

In Aztlán, Even King Midas Trips...

The NAFTA markets are the supreme test for even the most far-sighted and decided Mexican entrepreneurial spirit. Recently, even Carlos Slim, with all his experience and analytical capability, has encountered some difficulties in expanding and making the CompUSA retail chain profitable. He bought it in 2000, but it has already suffered losses and fines to the tune of millions of dollars.

From Tiny Markets to Huge Markets

The NAFTA markets' challenge has also been levied at the most proven of the business and trade models, Grupo Bimbo. One of Mexico's most widely recognized family businesses, it has also had some difficulties in replicating the business model that it has successfully implemented at home and in other Latin American countries.

Little by little, Bimbo has had to learn that in the NAFTA markets, because of their size and competitiveness, unlike in Latin America, the key to success is not in having wide distribution capabilities, economies of scale or buying companies and brands easily identified by local consumers.

For Bimbo, the real challenge of the NAFTA markets will be in being highly innovative, developing new products and creating a marketing strategy that targets a much wider population than first- and second-generation Hispanics. Only then will Bimbo's baker-bear NAFTA operation chalk up black numbers on its financial balance sheet.

Watch Out for the Business Cycle

With the acquisition of Asarco, Inc., one of the United States largest mining-metalworking companies and in turn owner of the Southern Peru Copper Corporation, Grupo México became the world's third largest copper producer. The importance of its productive enclave, headquartered in Phoenix, Arizona, in the heart of the world's most important metal market, led it to set up the American Mining Company (AMC) there, the corporate head of a mining business with revenues more than U.S.$2.4 billion in 2001 (not including its Mexican division's earnings), with mining and exploration operations on the five continents.

AMC's problem is mining's high sensitivity to the cyclical nature of international industrial markets for metals like copper (its main product), lead, zinc and precious metals. Cycles are key in this business since financial results are subject to the fluctuations of international prices and investments are huge, financed by debt emissions of several hundreds of millions of dollars.

Doing a Good Job

The case that shows a true NAFTA vocation is Corporación Durango, Latin America's largest producer of packing paper. From the early 1990s, Corporación Durango set its NAFTA business focus by specializing in making packaging for use by exporters and the universe of maquiladora plants that operate along the Mexico-U.S. border. Later, with the audacity and determination that characterize the Rincón family, it acquired McKinley Paper Company in 1997 and Gillman Paper in 2000 to satisfy from both sides of the border the demand for packing materials for export and import along the main industrial and commercial corridors that move trade between Mexico and the United States.

Having organized its NAFTA operation under the aegis of Durango International, the results have been satisfactory up until now. Nevertheless, the threat of a recession is now its main challenge: in 2001 its U.S. revenues dropped 25 percent and its net profits slumped to only U.S.$5 million.

The Myth of High Wages

Other cases worthy of special mention are the Grupo IUSA and Grupo Accel,

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who have used their experience in the field of manufacturing and the development of industrial solutions to position themselves in the NAFTA markets in businesses as disparate as metal working, candy, textiles and apparel.

Thus, while in Mexico the immense majority of entrepreneurs in apparel complain of the increase in real wages and the over-valued peso, putting them at a disadvantage vis-à-vis the "powerful" economies of Haiti, El Salvador, Trinidad Tobago, Malaysia and Vietnam, Grupo Accel, through its Tropical Sportswear International, designs, manufactures, develops brand names and sells apparel from its Tampa, Florida base of operations. It has registered several million dollars on the right side of its balance sheet despite U.S. wage levels, which are seven to eight times what they are in Mexico.

For its part, despite the fact that the 2001 recession complicated its NAFTA business performance, headed up by Cambridge Lee Holding, Grupo IUSA also had positive results from its copper tubing and wiring manufacturing operations.

Some Lessons

The experience of the Mexican corporations that have dared to set up shop in NAFTA territory can in general be termed positive, both from the point of view of their financial results and of the learning curve that will allow them to avoid mistakes and perform in highly competitive markets.

Even though profits are glaringly absent in the majority of cases, it is also fair to say that most Mexican businesses in NAFTA territory are still consolidating.

The fact that most of the businesses of Mexamerica, Inc. were established by purchasing already existing companies with entrepreneurial cultures that would be difficult to transform and that have often been overvalued means that Mexican corporate executives who want to expand into the NAFTA markets must refine their business sense. They have to learn to not make bad acquisitions of companies with scant vocation for change and profitability or companies in sectors threatened by substitution or technological obsolescence. VM