

Analysis of Bachaco's Market Strategies

José G. Vargas-Hernández*

Research professor, Department of Administration University Center for Economic and Managerial Sciences, University of Guadalajara
Periférico Norte 799 Edif. G201-7 Núcleo Universitario los Belenes Zapopan, Jalisco, 45100, México

Lic. Lizbeth Estefanía Gutiérrez Rodríguez

Maestría en Negocios y Estudios Económicos Centro Universitario de Ciencias Económico-Administrativas, Universidad de Guadalajara, México

Abstract

The poultry industry is one of the most important in Mexico, Industries Bachoco is the leader of the network, in this paper we analyze the different strategies that the company has implemented throughout its history and how they have given it a competitive advantage, from an analysis with the vision based on the industry, specifically from the Framework of the Five Forces of Porter. Likewise, a study is made of the structure of the market where it is located, and the possible practices of collusion detected by the Federal Commission of Economic Competition.

Keywords: Strategy; Industry; Oligopoly; Collusion.

JEL: D4; L1; M2.

1. Introduction

1.1. Background of Industrias Bachoco

The Bachoco Industries were born in 1952 as a small farm with which they began to produce and market egg, founded by the brothers Robinson Bourns, Ciudad Obregón, Sonora. In the search to grow, expand and consolidate its market, it has implemented different strategies. In marketing in 2008 they renewed their image. Another of its strategies has been through innovation and diversification of its product portfolio where they were the first company in the country to use the egg *docenera* (dozen) in 1987, to maintain their precedence in the self-service stores in 1992 incorporated the chicken *encharolado* per piece.

In 2001 they created the line of seasoned chicken broths and in 2015 Don Sazón y Caldo of natural origin. Over the years they have made some acquisitions as a strategy to continue growing and expanding their market, in 2007 they acquired the Mezquital del Oro with which they started to produce turkey. With the vision of internationalization and expanding its market in 2011, they acquired their first poultry company in Arkansas, United States. *Bachoco* (s.f.) As part of its expansion Bachoco in 2018 made investments close to three thousand 480 million pesos, making a greater investment than in 2016 of 41%, to include some of its acquisitions (*El Financiero*, 2018).

Bachoco's location strategy consists of having a wide network of farms distributed throughout the national territory, which allows it to avoid significant levels of concentration (*HR*, 2012). In 1994 they decided to become institutionalized by establishing the board of directors and the Robinson Bours family leaves the administration of the company. In 1997, it became a public company and listed its shares in the Mexican Stock Exchange of Mexico and the New York Stock Exchange, receiving "AAA (MEX)" (*HR*, 2012). In 2013, 26.75% of the total shares outstanding, which increased the floating position of the company (*Bolsa*, s.f.).

Through the implementation of the different strategies Bachoco has managed to create competitive advantages that have positioned it as the leader of the poultry sector (*Bachoco*, s.f.). The company has a vertical structure through an extensive network of subsidiaries, from food production, aging, egg incubation, production of various products derived from their initial products, the packaging of their products to distribution. In *Vargas et al. (2014)* says that we talk about a company with vertical structure when a company joins with others in a hierarchical structure, in this way the company can have a better control and certainty about the elements that integrate their value chain.

1.2. Market

1.2.1. Industry

Poultry farming, also known as poultry industry, consists of raising birds for the sale of meat and eggs. This activity has evolved over the years, starting as a backyard activity with the domestication and raising of animals for consumption in the home, until industrialized production arrives. According to the most recent data provided by La Unión Nacional de Avicultores, poultry farming in Mexico at the end of 2018 increased 3% in production, which is equivalent to a total of 6.3 million tons of chicken, egg and turkey production.

It is estimated that there is a national consumption per capita of 22.96 kg per person. Mexican aviculture contributed 0.737% of total GDP and 23.8% of agricultural GDP and is the main activity in transformation of

*Corresponding Author

vegetable protein into animal protein. By the end of 2018 it was projected that the poultry industry would generate 1 million 277 thousand jobs (Union Nacional de Avicultores, 2018).

1.2.2. Market Segment

Bachoco's market includes wholesale customers, self-service stores, retailers and institutional chains. It has 64 centers that distribute their products throughout the country, being a company with 67 years of experience that gives its consumers the security of consuming products.

1.2.3. Competition

One of its main competitors is PROAN, which is the largest egg producer in the country with its Huevo San Juan brand, another of its major competitors are the Rancho Grande and El Calvario Poultry Farms and together with Bachoco they are in Top 10 producers of egg from Latin America. In the case of the production of broiler chickens Pilgrim's, Tyson, Grupo Agropecuario San Antonio, Avigrupo are its biggest competitors, it is estimated that they have a market share of 35%, thus making them leaders in this segment (Productores Lideres de Pollo de Engorde, 2019).

1.2.4. The Oligopolistic Market

There is an oligopoly when in the market there are several companies that produce an identical good and there is strategic interdependence between them. There may be several forms of interrelation, in which one is a leader in the choice of price, the leader in the quantity lesson and in both the others plays as followers. But it can also happen that it does not know the decisions that the other will make and it has to imagine the possible scenario he will face with his competition. There is another type of interdependence in which companies can collude, in this case they reach an agreement, to maximize their benefits (Varian, 2010).

Specifically, in the sale of eggs in Mexico there has been suspicion of collusion in the market to study. In 2015, The Federal Commission of Economic Competition (COFECE), began with an investigation for a possible realization of absolute monopolistic practices in the production, distribution and egg marketing, since in March of this same year the price of the egg skyrocketed to over 40 pesos (COFECE) (Ginebra and Serrabou, 2015). The COFECE is an institution in charge of promoting, protecting and guaranteeing free and healthy competition in the market, as well as companies' sanction companies that incur in bad practices, prevent, investigate and combat monopolistic practices or collusions, in general watch for the good functioning of the market (COFECE, nd).

The investigation carried out by the COFECE with the file IO-004-2015, for this type of practices started in 2015 and ended in 2017, where the investigating authority indicated in its opinion that it had knowledge of possible monopolistic practices that derived in economic agreements or arrangements between competitors with the objective of exchanging information to fix, elevate, arrange or manipulate the price of the egg, and the economic agents involved were summoned to, in case of verifying said practices, fine with up to 10% of your income in accordance with the Federal Law of Economic Competition (COFECE, 2018).

Collusion exists when companies reach agreements to set price and production levels in order to maximize the total benefits of an industry, that is, they agree to act as a single monopolist and maximize the sum of their profits (Varian 2010). In this same sense the (COFECE, tools of economic competition) tells that there is collusion when the economic agents of the same market conspire with each other to manipulate prices or quantities and even divide the market. For De la Garza *et al.* (2011) companies collude when they cooperate with each other to carry out actions that benefit them such as raising the price or restricting production, which does not allow competition to exist.

Absolute monopolistic practices or collusion among companies that sell eggs caused a 40% decrease in the consumption of this product that is part of the basic basket among families with less income, denounced the National Alliance of Small Traders (Anpec) where they mention that the egg has increased from being 30 pesos in 2015 to 37 pesos.

This type of practices not only affect free competition in the market, the most affected ends up being the consumer

2. Statement of the Problem

2.1. Market Structure

The purpose of this paper is to study the market structure of the Mexican poultry industry, where Bachoco plays a leading role as market leader in chicken, eggs and turkeys, handling a hypothesis that is in an oligopolistic market structure, since through the competitive advantages developed by Bachaco, thanks to the different competitive strategies, where together with their competitors they have engaged in absolute monopolistic practices, colliding with each other to increase prices, a fact that affects the consumer.

3. Review Based on Industry-Based Vision

3.1. Concepts

3.1.1. Industry

Peng (2012), defines the industry as a group of companies that produce bins or services that are similar. In the same sense, it can also be defined as a set of companies that offer goods that are close or substitute (Hill and Jones, 2004).

3.1.2. Strategy

According to Vargas *et al.* (2014) the strategy is contextualized as the alignment or direction given to the internal resources of an organization to, modify, lead, adapt and in the worst case survive the environmental conditions. For Peng (2012) the strategy can be defined in three ways: as a plan, as an action and as a theory.

3.1.3. Market

The Banco (s.f.) defines the market as a place where the object is to link buyers and sellers, who make transactions and establish the exchange prices.

3.2. Theoretical Review

Through the model of the Structure-Conduct-Performance (ECD) (Peng, 2012), it tells that the industry influences the behavior of the firm, that is, the strategies that the company will implement, which will determine its performance within the market that is, can be perfect competition, monopoly or oligopoly. This author also mentions that the number of companies determines the market structure, where the industrial economy's concern lies in the fact that the profits of a market are equal, although in reality this does not happen.

The industrial organization is a branch of the economy that is dedicated to the study of market structures that are different from perfect competition. In the case where there are few companies we speak of an oligopoly, in this market structure there may be two scenarios: 1) companies collude with each other or 2) compete with each other (De la Garza *et al.*, 2011). These same authors mention Industrial Organization studies the practices that affect the structure and functioning of markets and how they influence market power. There are two waves within the Industrial Organization: The Structure-Conduct-Performance and The New Empirical Industrial Organization.

The analysis of the market, the number and size of firms that are established in the industry affect the competitive strategies and decisions that a company must take (Shupber, 2005). Within the vision of the strategy of the industry we find the framework five forces of Michael Porter that is part of the backbone of the vision of the strategy based on the industry (Vargas *et al.*, 2014). The Five Porter Forces are:

- 1) The intensity in the rivalry between the competitors. Here is the number of competitors plays a very important role, the influence of competitors in the market and supply, the market leader can have a very large market share that affects its competitors.
- 2) The threat of potential entrants. One of the main weapons of the industry is the entry costs, the higher the difficulty of entering the market.
- 3) The bargaining power of suppliers. Consists of the ability to raise prices or reduce the quality of goods, within this there are four conditions: a) the industry is dominated by few firms, b) provide products that are unique and different, c) is not an important customer the focal firm, d) are suppliers and also rivals.
- 4) The bargaining power of the buyers. Within this are some conditions that tell us that a small number of buyers cause that there is a strong bargaining power, the products must raise the quality or savings of consumers, they can enter with a delayed integration to the focal industry, buy unbranded raw materials and standard products.
- 5) The threat of substitutes. We talk about substitute products when they are different, but they satisfy the same need, they represent a threat when they are less expensive or have better quality. The price plays an important role because it can be the decisive variable between choosing one good or another.

These five forces within a company will determine how competitive it is and its performance (Peng, 2012).

3.3. Empirical Review

In an investigation about Bachoco they researchers mention that one of the key strategies in the success of this company is the location, which allows it to have a better positioning in the market before its competition (Hernandez and Vazquez, 2009). But they also found that this strategy was the constant during the first years but that over time the purposes that drove it were changing: 1) sought an alternative growth in local markets that were very competitive; 2) its objective was to achieve a more solid base to be more competitive and position itself more firmly in Mexico; 3) sought to protect themselves against the expectation of a division of the market by national coverage; 4) and so they went on to seek to export and diversify their production. They mention that their main strategy, location, allows them to capitalize on comparative advantages in different regions of the country.

In their study, López-Morales & Huerta-Estevez, (2016) found that the main commercial strategies implemented by Bachoco are advertising strategies, location and innovation where it is rare to find it and that through an appropriate combination and an excellent administration have come to position Bachoco as a leader in the market.

4. Analysis of Results

4.1. The Intensity in Rivalry Between Competitors

There is no great rivalry between Bachoco and its competitors since, by incurring collusion, they agree on the price, which does not allow for competition.

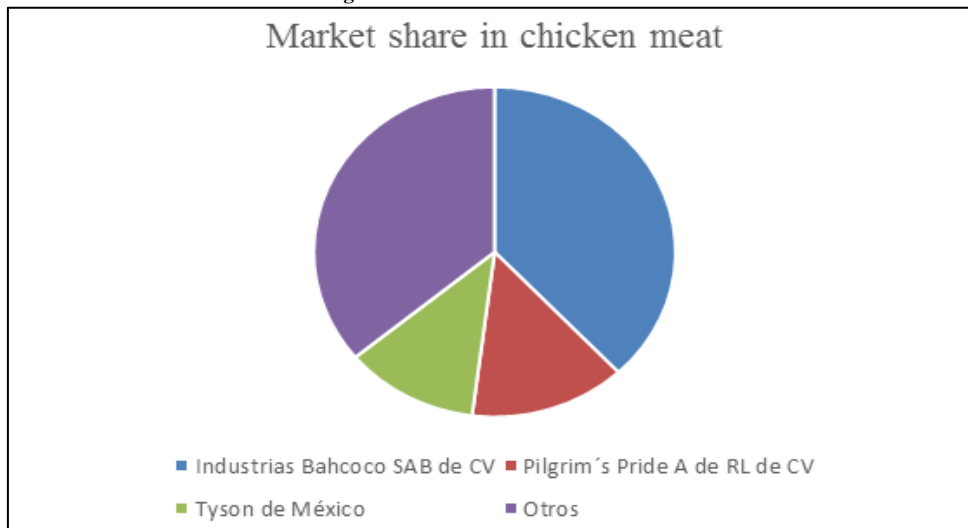
Through the concentration index, we can observe the market share of Bachoco in its two main activities, the production and sale of chicken meat and egg production, in 2010 (El Sitio, 2011).

Table-1. Chicken meat

CHICKEN MEAT	
Market Size, 2010 US \$ 4,910 million	
Company	Participation in the market
Industrias Bachoco SAB de CV	38
Pilgrim´s Pride A de RL de CV	14
Tyson de México	12
Otrod	36
Total	100

Source: Own elaboration with data from (El Sitio, 2011)

Figure-1. Market share in chicken meat



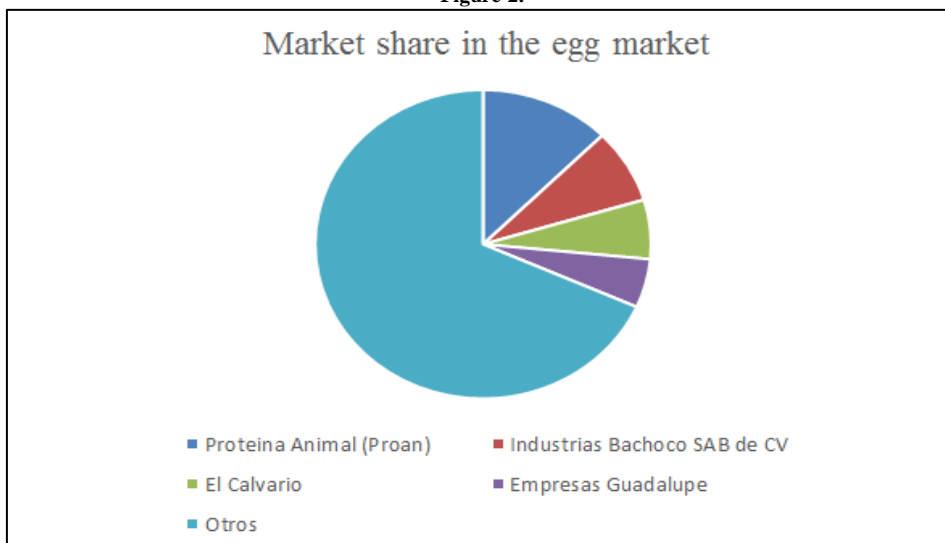
Source: Own elaboration with data from (El Sitio, 2011)

Table-2. Market share in eggs

EGG	
Market size, 2010: US \$ 2,470 million.	
Proteína Animal (Proan)	12.55
Industrias Bachoco SAB de CV	7.8
El Calvario	6.2
Empresas Guadalupe	5.1
Otros	68.34
Total	100

Source: Own elaboration with data from (El Sitio, 2011)

Figure-2.



Source: Own elaboration with data from El Sitio (2011)

Analyzing the results of the concentration index, we can observe that in the sale of chicken it is the one that occupies the first place with the highest market presence, positioning it as a leader, and in the egg segment, it

occupies the second place, but even so, it remains the leader in the market. market since it competes in all the activities that the sector encompasses.

4.2. The Threat of Potential Entries

There is no threat because of possible potential entries since due to the fact that they have an oligopolistic market structure in which the companies have strategic interrelations and through the collusion they have agreements. So, if someone decides to enter the market adapt. In addition, Bachoco has 65 years in the market, which has allowed it to create a reputation and experience in the market that is one of its competitive advantages that potential competitors face when seeking to venture into the market or even to those that they face existing companies. Another reason is that entry costs are high because they compete with a company as large as Bachoco and its structure throughout Mexico.

Some factors such as the number and size of established companies can affect competitive strategies and decisions if about entering the market (Shupber, 2005). Taking this concept, we could say that when analyzing the poultry industry, it is difficult that there are potential entries, since, although the number of established firms is not very large, it is dominated by some, that is why we speak of an oligopoly.

4.3. The Bargaining Power of Suppliers

Bachoco has eleven processing plants in Mexico, fourteen of the 20 feed factories are dedicated to the production of balanced feed for domestic consumption, has two manure processing plants, and also an animal vaccine laboratory for the poultry industry (Opportimes, 2018).

Thanks to its vertical integration, it can be seen that the company decided to become its own supplier and incorporate to its farms another type of plants that could supply it with needs for its production, and that it even sells to third parties, but most of them they are for internal consumption. This strategy allows you to have more control of your supplies and minimize costs.

4.4. The Bargaining Power of Buyers

Bachoco has a distribution network throughout the country, with its own transport fleet. The distribution network starts at the plants until it reaches the sales and distribution centers, where it is attended to wholesalers, retailers, self-service stores and institutional chains (HR, 2012).

The strategy of Bachoco lies in having a presence throughout the country to distribute more easily and with lower costs to its customers. Hernandez and Vazquez (2009), in their study of Bachoco's localization strategies, concluded that these strategies are the main and most successful responses of the company, since it has allowed it to have a presence throughout the country as well as adapt to the customs and traditions of the customers of each region.

Bachoco in comparison with its competitors, this development has been one of its strategies that have benefited most to position itself and cover the entire country, which has given a comparative advantage.

4.5. Threat of Substitutes

In our opinion the egg does not have substitutes, but in some cases it serves as a substitute, as for example of the meat, the eggs contain amino acids, proteins and omega 3 that can contribute the same as eating meat (Guevara and Trejo, 2017). Although in view of various concerns at present, it has been sought to develop alternatives for the egg, due to animal protection and vegetarianism and they are the egg made with plants such as soy (Zimmerhoff, 2019). From our point of view, they still do not represent a threat to the poultry sector, even though they went on the market in 2015, they still do not have a great impact that has affected them, they are even little known.

5. Conclusions and Recommendations

The different market strategies that Bachoco has implemented throughout the trajectory of the Bachoco Industries have managed to position them in the market as the leader with a considerable participation in the market. Its main and most important market strategy has been the location unlike its competitors established strategic points throughout the country that allow you to have a better distribution strategy in less time and costs. Another important strategy that is worth highlighting is the innovation and diversification of its products, being that in some cases it acts as a leader and the other companies as followers, as in the case of the implementation of the egg docenera, Bachoco was the first to use it.

Through mergers, Bachoco has managed to enter the US market with which it intends to be a strong competitor in that country. Another strategy used by Bachoco is thanks to its vertical integration, since this type of integration incorporates strategic actors in its value chain upwards and downwards as suppliers, where in some of its companies are at the same time its suppliers. This type of integration allows the company to have more control of its activities, as well as minimize its costs.

Analyzing the market Bachoco has great participation according to the concentration indexes in the chicken is leader and in the egg it occupies the second place, even so it is the leader of the poultry sector. This company is within an oligopolistic market structure that lends itself to collusion, reaching agreements to increase the price and distribute the market.

It can be concluded that these strategies of Bachoco have allowed it to create competitive advantages.

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