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Mexican companies increasing direct investments in US

by Carlos Navarro

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Supporters of the North American Free Trade Agreement (NAFTA) promoted the accord as a vehicle to bring direct investment to Mexico from US and Canadian companies, which has happened. The agreement has opened the door for the entry of capital into sectors such as rail transportation ([SourceMex, Jan. 5, 2005](#)), aviation ([SourceMex, June 6, 2007](#)), and banking ([SourceMex, May 23, 2001](#)). But the agreement has also made it easier for Mexican companies to invest in the US, with capital flows expanding greatly in recent years despite an uncertain economy. In a report published earlier this year, the US Department of Commerce (DOC) said investments by Mexican companies in the US rose to almost US\$8 billion in 2008, more than double the US\$3.6 billion recorded in 2005. More importantly, the investments of Mexican companies accounted for tens of thousands of jobs.

Mexican companies that have invested in the US either directly or through the acquisition of existing US companies include Grupo Industrial Maseca (GRUMA) and Grupo CEMEX ([SourceMex, June 23, 2004](#)) and ([March 4, 2009](#)). In many cases, the Mexican companies acquire existing brands or sell through names that have become familiar. For example, one of GRUMA's top-selling products in the US is the Mission brand of tortillas. CEMEX, the third-leading cement manufacturer in the world, uses brand names like Victor, Dixie, and Richmortar, depending on the US state.

"Many people don't even realize [the companies] are Mexican," economist Teresa Gutiérrez-Haces of the Universidad Nacional Autónoma de México (UNAM) said in an interview with the Phoenix daily newspaper .

Grupo Bimbo becomes largest baked-goods supplier in US

One of the most aggressive Mexican investors in the US market in recent years is the bakery company Grupo Bimbo. The company gained a major foothold in the US market with the purchase of Texas-based bakery Mrs. Baird's in 1998 ([SourceMex, April 15, 1998](#)). In 2009, Bimbo paid US\$2.4 billion to acquire the US baked-goods operations of Weston Foods Inc., the company associated with prominent brands like Entenmann's pastries, Boboli pizza crusts, and Thomas' English muffins. With that purchase, Bimbo assumed control of 22 industrial bakeries and 4,000 distribution routes.

In November of this year, the Mexican company owned by billionaire Lorenzo Servitje made another big splash with the acquisition of North American Fresh Bakery (NAFB) from US food company Sara Lee Corp. for US\$959 million.

The purchase, which includes 41 plants and nearly 4,800 distribution routes, consolidates Bimbo's control of the US baked-goods market. With the transaction, Bimbo also inherits 13,000 employees.

The acquisition is also important for Bimbo's global marketing scheme. Through a press statement issued at the Mexican stock exchange (Bolsa Mexicana de Valores, BMV), Bimbo said the sale includes a license to use the Sara Lee brand name without restrictions for sales of bakery products in the Americas, Africa, and some countries in eastern and central Europe.

But the US will remain the centerpiece of Bimbo's global marketing plans. Before the NAFB purchase, the Mexican company relied on the US market for about 43% of its total sales. With the purchase, the US now represents 52% of Bimbo's total sales, compared with 38% in Mexico and 12% in Latin America.

More importantly, the transaction makes Bimbo the largest baked-goods company in the US. "This converts us into one of the leaders in the sector, above Kraft Foods," said Armando Giner, Bimbo's director of investor relations.

Sara Lee was said to be looking for a buyer for NAFB since July 2010. The property, which had been acquired from Earthgrains in 2001, was yielding disappointing profits for Sara Lee.

Despite the disappointing NAFB profits, Bimbo is counting on an eventual rebound of the US economy, which will improve profitability. "We are not buying the Sara Lee operations because of what they are today but because of what they could become," said Guillermo Quiróz, Bimbo's director of finance.

The success of Bimbo, CEMEX, and GRUMA has inspired other Mexican companies to invest in the US market. Mexico's giant dairy company Grupo Lala, based in Gómez Palacio, Durango state, has purchased several US properties in recent years, starting with a yogurt plant in Omaha, Nebraska, in 2007. In 2009, Lala planted itself firmly in the US market with the acquisition of Texas-based National Dairy Holdings, an entity that controls the Borden brand and 18 regional dairies that sell products under the names Flav-O-Rich, Dairy Fresh, Velda Farms, Sinton's, Cream O' Weber, and Goldenrod.

But even though the Mexican companies are in the US market to make a profit, whether in the short or long term, they also benefit the US economy through the jobs they create or preserve. The DOC report said Mexican companies accounted for 59,000 jobs in the US as of 2008.

"These companies show we're not just a bunch of uneducated migrants," said Jorge Smeke, a business professor at the Universidad Iberoamericana in Mexico City. "Clearly, there are Mexican investments [in the US] that are creating jobs."

Drug violence deters US investment in Mexico

The investment landscape for US companies in Mexico might be going in a different direction because of the explosion of drug-related violence. In late October, the US State Department released results of a survey indicating that concerns about public safety and political instability have become major concerns for US companies. The survey, which polled 220 US companies in July of this year, showed that 15% of respondents have postponed investments or expansion plans in Mexico because of drug-related violence. More importantly, 80% said the increased violence, in part a result of President Felipe Calderón's campaign against drug traffickers, represents a long-term threat to Mexico's political and economic stability.

The State Department said the violence and other problems like kidnappings and attempts at extortion have led some companies to pull out of Mexico, and one firm canceled a factory construction. Nearly one-third of the companies that responded reported having faced attempts or actual acts of extortion in Mexico, ranging from random phone calls demanding money to abductions.

Three in four companies responding to the survey said they have been forced to place restrictions on living or travel arrangements for employees because of the extreme insecurity.

Many companies said the insecurity has also affected their bottom lines in many ways, including reducing sales and increasing expenditures on security. The problem has affected operations in various ways, especially for mining companies that operate in rural areas. Some of these companies have had to implement extraordinary security measures because of increased theft ([SourceMex, Oct. 20, 2010](#)), while others shut down operations altogether because of threats from cartels that operate marijuana and poppy plantations nearby.

In September of this year, Schlumberger Ltd, which conducts drilling operations and provides other services to the state-run oil company PEMEX, reported that the growing violence has severely undermined its energy projects in Mexico.

The situation has raised strong concerns among US officials. "If we don't take seriously the tension that is being created by the insecurity and work in a very deliberate and accelerated way to reduce it, then there is a very serious prospect that the spillover into the investment climate can become more significant," US Ambassador Carlos Pascual said in an interview with Reuters.

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