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# The Bread of the Americas.

## *Bimbo*: A Mexican Business Success Story, 1944-2010<sup>1</sup>

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### Introduction

*Bimbo* is probably the greatest achievement in Mexican Business History. A brief overview of its position in the ranking of the largest Mexican companies reveals the extraordinary achievements of the group. The company leapt from position 189 in 1960 in the ranking of Mexican companies, ranked by sales volume, to 22 in 2007 (Table 1). No other company in the country took a leap of this magnitude in that period of time<sup>2</sup>.

The success of this company is almost prodigious if we bear in mind the limited access to technology that Mexico has had, obviously a much more delayed access than in other countries, the financial difficulties of the internal market and the not-always-permissive political environment. The company's success is all the more remarkable when one considers that Mexico is not one

1. This work was carried out with financial support obtained through my membership of research groups led by María Eugenia Romero Ibarra at the Universidad Autónoma Nacional de México and Ángel García Sanz at the University of Valladolid. I would also like to express my deep gratitude to Roberto Servitje Sendra for his willingness to assist me in my research work for this article. I am indebted for the lessons learnt from my Mexican colleagues, especially Carlos Tello, Carlos Marichal, Luis Jauregui, Mario Cerutti and Antonio Ibarra, from whose scholarship, wisdom and intellectual generosity I have benefitted. Additionally, I must express my deep gratitude for the insightful comments I received from the referees named by the publication for evaluation purposes. Any errors that may continue to exist after so much generous assistance are my sole responsibility, the result of my ignorance and inflexibility.

A preliminary version of this work was published in electronic format (number 575) by the Spanish Savings Banks Foundation (Fundación de Cajas de Ahorros, FUNCAS) after a rigorous evaluation that contributed substantially to improving the text.

2. Ceceña (1994), p. 239.

*Fecha de recepción: Marzo 2011*  
*Versión definitiva: Septiembre 2011*

*Revista de Historia Industrial*  
*N.º 47. Año XX. 2011.3*

**TABLE 1** • *The 30 Largest Mexican Companies Ordered by Sales Volume in 2007 (in millions of Pesos)*

<b>RK</b>	<b>Company</b>	<b>Sector</b>	<b>Sales</b>	<b>Employees</b>	<b>Capital</b>	<b>Origin</b>
1	<i>PEMEX</i>	Energy	1133,786	145275	Mexican	Mexican
2	<i>América Móvil</i>	Telecom	311,579	50541	Mexican	Lebanese
3	<i>Cemex</i>	Building materials	236,669	66612	Mexican	Mexican
4	<i>Comisión Federal de la Energía</i>	Energy	225,744	80381	Mexican	Mexican
5	<i>Wal-Mar de México</i>	Department store	224,976	157432	American	Spanish
6	<i>Fomento Económico Mexicano</i>	Soft drinks and beer	147,556	105020	Mexican	Mexican
7	<i>Teléfonos de México</i>	Telecom	130,767	56624	Mexican	Lebanese
8	<i>Telcel</i>	Telecom	126,797	14360	Mexican	Lebanese
9	<i>General Motors de México</i>	Motor industry	123,278	13442	American	American
10	<i>BBVA-Bancomer</i>	Finances	119,290	35186	Spanish	Spanish
11	<i>Nissan Mexicana</i>	Motor industry	110,591	8884	Japanese	Japanese
12	<i>Grupo Alfa</i>	Holding	106,832	50695	Mexican	Mexican
13	<i>Banamex</i>	Finances	106,111	44000	American	Mexican
14	<i>Chrysler de México</i>	Motor industry	95,830	6649	American	American
15	<i>Volswagen de México</i>	Motor industry	94,671	16045	German	German
16	<i>Grupo BAL</i>	Holding	84,915	39048	Mexican	French
17	<i>Ford Motor Company</i>	Motor industry	79,774	5600	American	American
18	<i>Grupo México</i>	Mining	79,940	19061	Mexican	Mexican
19	<i>Grupo Carso</i>	Holding	74,973	78904	Mexican	Lebanese
20	<i>Bodega Aurrerá</i>	Department store	73,646	51751	American	Spanish
21	<i>Grupo Modelo</i>	Beer	72,894	38402	Mexican	Spanish
22	<i>Grupo Bimbo</i>	Food	72,293	91289	Mexican	Spanish
23	<i>Santander-Serfin</i>	Finances	70,126	17069	Spanish	Spanish
24	<i>Coca-Cola FEMSA</i>	Soft drinks	69,251	58126	Mexican	Mexican
25	<i>Telmex International</i>	Telecom	67,760	26321	Mexican	Lebanese

Source: *Expansión*, June, 2008, pp. 200-2001.

of the largest wheat producers nor has bread a particularly striking presence in the country's diet. In other words, *Bimbo's* business adventures were due neither to its comparative advantage nor to demand pressure.

Previous essays have offered a descriptive summary on the group's creation<sup>3</sup>. The objective is more ambitious on this occasion. This article intends to clarify how such vertiginous growth was possible by a company in only one generation. Thus, the theory put forward here is that the company's organizational configuration was a decisive factor. The policy of growth through vertical integration applied since its very creation, a Board able to make managerial changes compatible with the company's family structure and a structuring of industrial relations that guaranteed absolute calm throughout its entire history were all enough to combat the drawbacks previously mentioned.

The consideration of the group's history sheds light on a phenomenon whose importance has not been fully weighted by neither historians nor economists: the creation of very large vertically integrated companies in emerging economies.

Indeed, the naissance of big international companies has been the greatest institutional change experienced by the Mexican economy in recent decades. The success of *Bimbo* is neither casual nor unique, since it developed hand in hand along with other major Mexican companies that reached a similar degree of success on the global market. In this sense, we can mention the *Modelo* brewery or the CEMEX cement company that were part of this Mexican "reserve business army" that broke out after the fall of the Soviet bloc and the onset of globalization<sup>4</sup>.

Such a transformation, on the few occasions it has been studied, has been interpreted in a rather disdainful fashion as the consequence of Mexican businessmen's ability as a seeker of income and as the result of the governments', both the PRI and PAN<sup>5</sup>. The existence of highly competitive corporations in the world market has been recognized only very recently by scholars<sup>6</sup>.

Like no other Mexican firm, *Bimbo* exemplifies such achievements while at the same time testing the adaptability of family firms to market changes. Its study can better allow us to evaluate the impact of so-called "founder centrality" on strategic direction as well as the effects of cultural conditioning on the

3. Moreno (2000).

4. Fuentes-Barain (2007). About the idea of "reserve business army" and the myth of entrepreneur spirit, see Hirschman (1958), p. 15.

5. Ceceña (1994); Morera (1998); Labastida (1986); Camp (1990); Pozas and Luna (1991); Cordero, Santin and Tirado (1983).

6. Basave (1996); Fuentes-Berain (2007); Castañeda (1998); Cerutti, Hernández and Marichal (2009).

group's founding<sup>7</sup>. In short, by studying *Bimbo* we characterize –albeit tentatively- the model of the large Mexican family business<sup>8</sup>.

The setting up of *Bimbo* was the result of the determination of a family of Spanish emigrants that arrived in Mexico before the outbreak of the Mexican Revolution. Its history clarifies the relationship between the foreign minorities and the Latin America economic development.

In order to document this study I have mainly used information supplied by the documents of the company itself, as kept in its archives. I have also used notary records, the registry of patents and trademarks as well as Mexican and Spanish stock exchange documents.

### **The Birth of the *Bimbo* Bakery, 1944-1952**

In 1944, the partners of *Servitje y Mata* and “El Molino” decided to set up a sliced bread factory. Following a tragic business career and personal life and having previously owned the “El Molino” bakery (founded in 1928), in 1944 Lorenzo Servitje, the son of a Catalan immigrant who had arrived in Mexico in 1903 and who died in 1936, decided to build a sliced bread factory in Mexico City. He aimed to invest the profits obtained along with fellow student José Trinidad Mata (who also joined the project) from fruit exports to the United States during World War II. The company was also joined by Alfonso Velasco, a bakery technician trained in Kansas and of Spanish origin, and Jaime Jorba, his cousin, both employees at “El Molino”.

The only initial objective they had with this investment was to supply raw material for the preparation of the sandwiches sold at *El Molino*, since that supplied by *Pan Ideal* (the only sliced bread factory that was producing in the city at that time) was found wanting. However, as the project set up by Alfonso Velasco and Lorenzo Servitje grew, the aspirations of the founders also did<sup>9</sup>.

Servitje himself chose the trademark of the company, *Bimbo*, as well as the logo, the well-known teddy bear dressed as a baker<sup>10</sup>. In October 1944, the *Panificadora Bimbo, S.A.* company was set up, with an initial company capital of 300,000 pesos<sup>11</sup>. As was common practice among the Spanish community, the promoters satisfied their financing needs by making use of family and nationality ties. José Torrallardona, then owner of the “Hotel Ansiera” in Monter-

7. Althanassiou, Crittenden, Kelly and Márquez (2002).

8. Belausteguigoitia and Portilla (2004).

9. Ortiz (1985).

10. IMPI, Marcas, expediente 22.700, registro 464.460. The following names were considered: Rex, NSE, Popo, W, IRIO, Sabrosoy, Nutricio and Armiño, among others (AGB, *advertising studies*).

11. RCDF, Comercio, L3-190-136-64.

rey and who had tutored the first entrepreneurial steps taken by Jorba, Sendra and Servitje in Mexico, supported this initiative and offered part of the resources needed to set it up<sup>12</sup>. The rest of the financing was obtained by the family from a loan granted by the *Banco de la Propiedad*, in hands of fellow countrymen<sup>13</sup>. Lorenzo Servitje's father-in-law, the Spanish match manufacturer Ramón Montull, offered the lands in Mexico City where the factory would be built<sup>14</sup>.

The second problem to be solved lay in the lack of technology. The Servitje family necessarily had to seek the help of the United States. In fact, the acquisition of material in that country (with the approval of a government that was very reluctant to endorse that kind of transaction) was a first step in the resumption of technology transfers from its northern neighbour, which had dwindled in the years of the Revolution and had nearly broken off completely during the tenure of Cárdenas. In other words, *Bimbo's* initiative opened the way to the normalizing of technological relations between Mexico and the United States which had been very successful in the past<sup>15</sup>.

On 2<sup>nd</sup> December 1945 the bakery was inaugurated, with two second-hand continuous ovens purchased in the United States and with some 34 employees. A short while later, a third oven was installed and, in 1947, a second bakery was built next to the first one. As early as 1952, the third and forth plants were built.

The statutes clearly indicated the role of each partner. José Torrallardona was President of the Board of Directors, in recognition of the favors made for the family. However, this was an honorary post since the management was in the hands of Lorenzo Servitje. Alfonso Velasco was responsible for production and Jaime Jorba was in charge of sales, with the collaboration of Roberto Servitje, Lorenzo's brother, who had just completed his studies at the Jesuit School in Quebec. Both of them traveled around the city carrying out surveys of retailers and checking out sales possibilities, a statistical exercise never before carried out by a Mexican company. As early as 1950, Francisco Plancarte was appointed General Manager<sup>16</sup>. Jaime Sendra distanced himself from the direct management of the company and took on a purely advisory role in order to help out his sister at "El Molino" along with the youngest of the Servitje family, Fernando<sup>17</sup>.

12. In reality, *Servitje* and *Sendra* became part of *Panificadora Bimbo*. In fact, they continued to export fruit to Europe for some time.

13. Cherem (2008), p. 71.

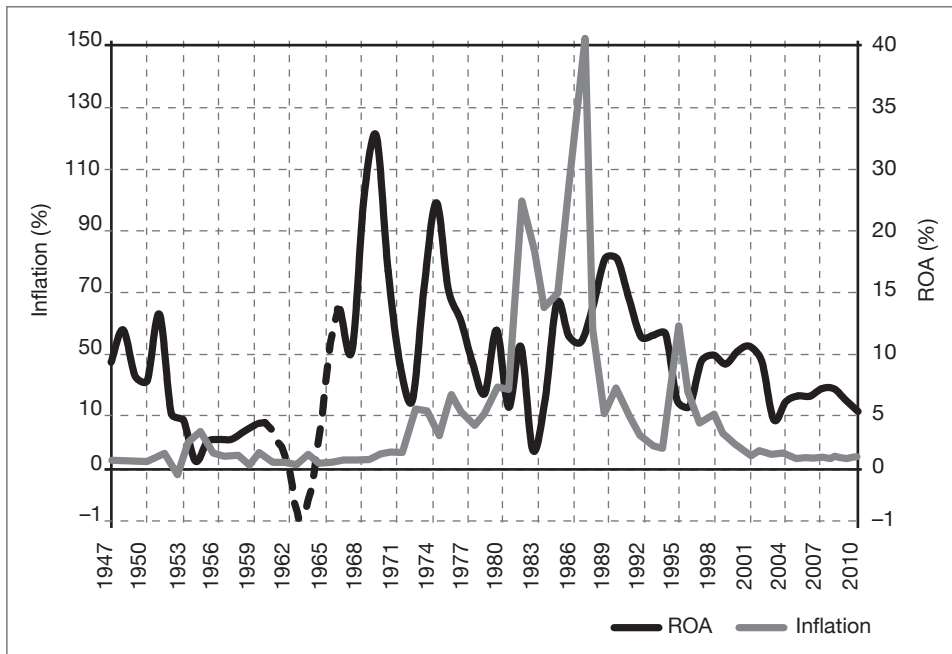
14. AGA, Departamento de Migración, Españoles, caja 100, expediente 207.145.

15. Beatty (2001) and (2003).

16. RCDF, Comercio, L3-258-299-507.

17. In fact, Sendra set up a new business *Pastelería y Dulcería Meynier*, whose manager was his brother José, who had arrived from Spain in 1948, as well as his nephew Isidro Sendra Riba, a year later (AGA, Departamento de Migración, Españoles, caja 141, expedientes 198.803 and 268.415).

**FIGURE 1** ▪ Grupo Bimbo's Return On Average Assets, 1947-2010



Source: Archivo y Museo del Grupo Bimbo, informes financieros and Archivo de la Bolsa Mexicana de Valores, balances of Grupo Bimbo; For inflation see <http://www.inegi.org.mx/est/contenidos/proyectos/inp/inpc.aspx>.

Note: Between 1960 and 1967 profits are estimated and based on those of *Marinela*. There are no figures available on inflation in Mexico until 1969. Prior to that date, as is common among scholars of the Mexican economy, I have used the index of Mexico City wholesale prices.

The short-term results exceeded even the greatest expectations of the founders (Figure 1). In just a few months, *Bimbo* practically did away with the competition. During the first three years, they gathered up a reserve of 300,000 pesos. In December 1948, the partners decided to multiply the company's capital by ten<sup>18</sup>. By then, there were over 700 employees despite the difficulties in promoting the product which was still not well-known, the hostility of bakers who refused to sell the product on their premises and the tax obstacles that forced the Servitje family to ask for the mediation of the President Mateo Alemán in 1949.

The economic juncture at which it was born partly explains the vertiginous growth of the company. *Bimbo* started its activities at a time of great bread scarcity in Mexico City, due to the market cartel imposed by Spanish bakers who had grouped together in what they called *Departamento Especializado de Panificación*, breaking the Anti-Monopoly Law established by Lázaro Cárde-

18. RCDF, Comercio, L3-304-226-300.

nas en 1934<sup>19</sup>. President Ávila Camacho had to give in to price increases, thereby leading to a range of union protests<sup>20</sup>.

In the midst of such scarcity and due to the fact that, since 1941, sliced bread was not regulated by law, *Bimbo* could offer its products at a reasonable price and in smaller fractions, which led to an important increase in its income, due to high demand elasticity. This strategy contributed to a reduction in the price of commodities in Mexico City, to the relief of the Federal Government. Ávila Camacho helped *Bimbo* due to the contribution it had made in avoiding possible public order conflicts by subsidizing the purchasing of flour and granting it the franchise to import foreign machinery.

An important part of the success of the new company was due to the quality of the bread. Velasco took special care of the fermentation process in order to guarantee its freshness and to avoid it becoming prematurely moldy, which was what happened to *Pan Ideal's* bread. Velasco created a team of engineers and chemists for this purpose, among whom were Mario Aguilar, Vicente Milke and Fernando Boullosa among others, all trained in the United States like him. *Bimbo* was distributed in cellophane instead of the waxed paper used by the competition, which allowed the consumer to see the product<sup>21</sup>.

*Panificadora Bimbo* initially manufactured three types of bread, adjusting to the strong segmentation of the Mexican market (in 1950, little more than half the Mexican population ate white bread). One of those products, “*pan negro*” [black bread], made from a mixture of wheat and rye flours, intended to satisfy the demand of the popular classes which had been unattended up to then. The company quickly expanded its offer with the elaboration of plum cakes from 1947 onwards and of bread rolls (1952).

The company vertically integrated its distribution with the purchase of ten trucks<sup>22</sup>. Those responsible for delivery included former milkmen and salesmen who were conveniently trained. The appearance of the first supermarket chains, particularly *Sumesa*, considerably reduced the cost of sales<sup>23</sup>.

Sales were organized through a detailed plan elaborated in July 1944 which assigned a specific market segment to each product and distinguished between direct and indirect suppliers (train and airline companies, hotels, canteens, beer manufacturers and racetracks) as well as groups (hospitals and asylums)<sup>24</sup>. In 1948, a second plan was approved which set the objectives to “improve the tex-

19. NMLT, Archivos Económicos, caja PO9149. In reality, the sale of bread in the capital was in the hands of two Spanish bakers: Antonio Vázquez and Jerónimo Curto.

20. BMLT, Archivos Económicos, caja PO9137.

21. The packaging was made by *Bolsas y Productos de Papel*, owned by Joaquín Ibarrola, José Herrera Báez and Conrado Montaña Albert (*Pan*, 1958 (51), p. 55).

22. At the outset, the company distributed exclusively in Mexico City in a second-hand Ford vehicle.

23. Muldoon and Servitje (1984).

24. AGB, 1944: Planes de venta.

ture, wrapping and freshness” (points I and II), the “exhibition” (III), “stock control” (IV), “good service and special treatment” (V), “skilful and effective advertising”, “placing of the product in the trucks to avoid them becoming squashed or damaged” (VI)” and “a careful increase in the number of customers”.

*Panificadora Bimbo* used newspaper salesmen to distribute its bread in localities around Mexico City. In 1947, it opened its first “external routes”, run directly by the company in Tuxpan, Poza Rica, Toluca, Pachuca and Puebla. In 1949, in this last locality it set up its first agency, which was followed by those established in Veracruz and Tampico. In 1952, Roberto Servitje designed the organization of road transport inspired by the system used by the U.S. Army<sup>25</sup>. The return trips were to be made on the same day<sup>26</sup>. All vehicles had a tachometer installed (invented by the company) and none of them were allowed to have a radio installed.

Product promotion was undertaken by the company called *Publicidad Continental* using advertisements in press and on radio. *Bimbo* was a pioneer in the use of promotional gifts in its packaging since 1951. Lorenzo Servitje discovered the value of marketing and he became one of its committed enthusiasts and the greatest defender of its use among Mexican businessmen<sup>27</sup>.

*Panificación Bimbo* paid for these investments through its own resources, a strategy which was linked to the Catalanian business culture from which its founders had emerged. The company enjoyed great liquidity since it demanded its clients pay 80% of the product price in cash, upon delivery of the merchandise. The partners agreed on a highly prudent dividend policy: they rarely exceeded 10% in spite of the plentiful profits made. Only in 1951 did they have to apply for a mortgage from the *Banco Internacional* to acquire raw materials, fuel and to pay salaries<sup>28</sup>.

Finally, the arrangement of industrial relations based on a singular symbiosis of Christian humanism and *Fordism*, which could be adjusted to the rigidity of the Mexican labor market guaranteed calm during moments of difficult labor conflicts in the sector, particularly between 1944 and 1947<sup>29</sup>. Its wages tripled the average in the sector. *Bimbo* did away with promotion due to time worked in the company in order to include productivity bonuses. Through the inclusion of the measure in its statutes, 8% of company profits always had to be used for welfare projects. Lorenzo Servitje even set up a savings bank for his employees<sup>30</sup>. Workers enjoyed other social benefits, closely related to the Cata-

25. Cherem (2008), p. 273.

26. In fact, the supplies sent to Acapulco were sent by airplane.

27. Frausto (2008), p. 258.

28. RCDF, Comercio, L4-57-384-399.

29. Servitje (2003).

30. Cherem (2008), p. 84.



lonian enterprise culture transferred across the ocean. Employees were given a place of residence and their children were offered education at all levels in their own schools, a supervised recreational area (an intangible asset of enormous value in such a violent society as Mexico), places of entertainment as well as perspectives of joining the company in the future. A special bonding with *Bimbo* was instilled in employees. In exchange for those benefits, employees were expected to identify themselves unequivocally with the company and guarantee their commitment and loyalty to it. Thus complete harmony was ensured between the interests of workers and those of the Servitje family. The relationship between management and the firm representative of the *Confederación de Trabajadores Mexicanos* (CTM) –the pro-government trade union–, Rodolfo Martínez Moreno, were particularly cordial.

Despite the promising results obtained by *Panificadora Bimbo*, the Servitje family did not abandon “*El Molino*”. In 1951, the business was turned into an incorporated company, owned by Servitje’s widow and children and with a starting capital of 300,000 Pesos. They then had three bakeries spread out around Mexico City.

### **The Creation of a Great Company, 1953-1965**

From 1950 onwards and up to 1962, Mexico went through a period of economic boom which materialized in an average GDP growth rate of 5.9%. However, such growth was also accompanied by an increase in the inflation rate which the government tried to tackle by limiting the price of bread, something which had a very pernicious effect on *Bimbo*’s financial results (Figure 1). These alterations in food markets were caused by the effects on Mexican foreign trade by the U.S. entering the Korean war.

The belligerence of the Government went even further following the 1954 devaluation. In 1955, the *Comisaría de Estudios Económicos*, alarmed by a 20% increase in the price of bread, threatened to cancel *Bimbo*’s grain purchasing licenses if it did not control its price<sup>31</sup>. A State-owned company called CEIMSA started to distribute bread among the poorer classes in order to force a reduction in its price<sup>32</sup>. This caused a rupture in the Spanish Bakers’ Trust in 1956, following decades of exemplary discipline, thus leading to a price war which *Bimbo* could not avoid entering<sup>33</sup>.

It then became necessary to expand the markets which had been practically reduced until then to Mexico City. They would thereby limit the terrible ef-

31. BMLT, Archivos Económicos, caja PO9137.

32. *Pan*, Mexico City, 1959, (73), p. 32.

33. *Pan*, Mexico City, 1956, (29), *pássim*.

fects of the fall in income from exploitation. In order to do this they needed nine million pesos which they received through a capital expansion undertaken in September 1954<sup>34</sup>.

In December 1956, the company inaugurated its center in Guadalajara, which belonged to its subsidiary company *Bimbo de Occidente*, under the management of Roberto Servitje. Velasco, assisted by Guadalupe Pérez, set up a model factory with machinery imported from the United States through the *Agencia Comercial Anáhuac*<sup>35</sup>. The plant was the first one in the Republic to be built with cement. It also had natural light due to its corrugated roofing, something completely new in Mexico. Roberto Servitje imposed ergonomic conditions on the factory which were unique in the whole country<sup>36</sup>.

However, the greatest conquest made by the company during those years was the expansion of its industrial caking activities, a sector which the founders of *Bimbo* had received their initial training in as businessmen. Following the failure of the first company, *Pabisa*, set up in 1956 with a capital of four million pesos, in 1957 they set up *Productos Marinela* with the same objective<sup>37</sup>. Once again, Alfonso Velasco was responsible for product design: three stuffed buns called “*gansito*”, “*negrito*” and “*bombonete*”, baked in facilities at the plant in Mexico City and sold through the sliced bread distribution infrastructure<sup>38</sup>.

The sales of “*gansito*” surprised even those responsible for the product within the company. No other food product had been taken on so quickly and generally by the junior population of Mexico in the second half of the xx century. A very sharp and effective advertising campaign helped achieve this; the campaign started in 1954 with the broadcasting of TV adverts, becoming the first Mexican company to do so.

*Bimbo* had unusually positive financial results in the very short term due to this growth strategy (Figure 1). At the end of the decade, Lorenzo Servitje, was by then one of the most outstanding businessmen in Mexico City, as influential as the *Grupo de Monterrey*, although less known. At the time he had become involved in several associations that aimed to spread the Church’s social doctrines, particularly the *Confederación Social de Empresarios*, which he

34. Lorenzo Servitje and the rest of the members of the family decided to bestow on Velasco the status of capital partner and promised him 10% of net profits. RCDF, Comercio, L3-350-351-431.

35. RCDF, Comercio, folio 281.983; RCJ, Comercio, folio mercantil 7.21; and *Pan*, 1957 (45), pp. 20-24.

36. *Pan*, Mexico City, 1957 (45), p. 20.

37. RCDF, Comercio, libro 4, volumen 76, hoja 399 and folio mercantil 4202.

38. In 1958 Velasco travelled to Germany to participate in the International Mill Exhibition. The technician made use of his stay on the continent to visit bakeries in the United Kingdom, Austria, Switzerland and Italy, as well as to get to know Spain, his country of origin. On his return, he incorporated the improvements he had seen there into the Mexican bakeries. *Pan*, Mexico City, 1958 (55), p. 23.

headed. His democratic Christian links created certain distrust in the PRI administration. In fact, the company momentarily lost its understanding with the Government and the favors which others benefited from<sup>39</sup>.

From his position as company founder, Lorenzo Servitje captained its expansion with the help of Velasco and his brother Roberto. It fell to him to make all the strategic and financial decisions. Trained due to the early death of his father, the eldest of the Servitje brothers asserted his knowledge, much of it acquired through empiricism itself. Despite his youth, Lorenzo Servitje served as a true patriarch, following the genuine management guidelines of an Hispanic company<sup>40</sup>.

The improvement was temporary. In 1960, Alfonso Velasco suddenly left *Panificadora Bimbo* to set up *Panificadora Mexicana* in Monterrey<sup>41</sup>. The move caused *Bimbo* a lot of damage just as it was about to start production in the city of Nuevo León in its *Bimbo del Norte* plant<sup>42</sup>. Furthermore, at that time the company was facing cost increases due to Social Welfare payments which started on behalf of workers, a cost which the government did not let them reflect in the prices of their products<sup>43</sup>.

Velasco did not fare well in the struggle with his former partners. In 1961 he gave up and sold his company to *Panificadora Bimbo*. Following his failure in Monterrey, he tried again in Mexico City, where he set up *Pan Fiel*<sup>44</sup>. He was not successful on this occasion either. After three years, he sold his business to the U.S. company *Wonder*<sup>45</sup>. Velasco then retired to Guadalajara and dedicated his time to writing science fiction novels<sup>46</sup>.

*Wonder*, however, did manage to make an important foothold in the Mexican market in the short term due to the distribution agreements signed with *Aurrerá* and *Gigante*, the largest supermarket chains in the country. As well as sliced bread, *Wonder* made two buns that challenged “*gansito*”, *Bimbo*’s iconic product: “*Chocolín*” and “*Tuinky*”<sup>47</sup>.

The competition from *Wonder* was terribly damaging to *Panificadora Bimbo* at a time when it had series liquidity problems due to the heavy payments to be made following the purchase of *Panificadora Mexicana*. All of this took place during a period of economic slowdown in the country<sup>48</sup>. In such adverse conditions and for the first time since the outset, *Panificadora Bimbo*

39. Frausto (2008), pp. 255-256.

40. Althanassiou, Crittenden, Kelly and Márquez (2002), p. 140.

41. RCNL, Comercio, libro 20, anotación 13 and RCDF, Comercio, L3-350-351-431.

42. RCNL, Comercio, libro 21, anotación 165.

43. BMLT, Archivos Económicos, caja PO9137.

44. *Pan*, Mexico City, 1958 (55), p. 30 and IMPI, Marcas, expediente 244.681 y 328.394.

45. IMPI, Marcas, expediente 114.573, registro 117.780.

46. *Pan*, Mexico City, 1968 (171), p. 14.

47. IMPI, Marcas, expediente 119.824.

48. Cárdenas (1996), p. 33.

registered losses (Figure 1), which were of such magnitude that it had to reduce its capital by three million pesos in 1964 in order to write off debts<sup>49</sup>. To make matters even worse, in 1965 the Federal Government suspended subsidized flour purchase without simultaneously allowing for an increase in final product price<sup>50</sup>. Some voices within the CTM even requested the nationalization of bakeries.

The Servitje family had to completely re-organize a company which seemed condemned to a handover. The first need was to solve management problems caused by such vertiginous growth. In 1963, the four family companies were integrated into one holding group, the first such group in Mexico and based on American and Japanese business organization methods. All companies became part of the *Central Impulsora, S.A. de P.V.*, the new holding Group. Its directors, divided into three groups (control, technical and engineering management, under the supervision of the subsidiary *Promoción de Negocios*), were responsible for the general planning of the newly denominated *Grupo Industrial Bimbo (GIBSA)*<sup>51</sup>. The *Central Impulsora* administered the companies' shares and –from 1970 onwards– their patents and product models<sup>52</sup>. The company also adopted a “line and staff” management model.

*Panificación Bimbo* considerably diversified its range of products. In 1962, it started to produce whole-wheat bread (it was one of the first bakeries in the world to do so) as well as its *Marinela* cookies. For this latter product, they installed new German-made ovens and the achievement was quite remarkable if we bear in mind that the cookie market was quite saturated at the time with no room for additional products. *Marinela*, which was specialized in the manufacturing of cookies for low-income families, became the second-largest producer in the country in the short-term, following *Gamesa*, a family-owned company (like *Bimbo* itself) which had been set up in Monterrey in 1921<sup>53</sup>.

In order to promote these products, *Bimbo* used new advertising and publicity instruments through the *Publicidad Salas* advertising agency, such as sticker collections and, starting in 1963, the sponsorship of children's television programs, with quite interesting results in terms of impact and sales<sup>54</sup>.

Finally, *Grupo Bimbo* took on the challenge of conquering the Spanish market, as did other companies founded by Spanish immigrants in that country, such as the *Cuétara* biscuit company, the *Modelo* brewer and *Aurrerá*. In reality, it was a personal decision of one of the shareholders: Jaime Jorba, the only

49. RCDF, Comercio, L3-304-226-300.

50. BMLT, Archivos Económicos, caja PO9137.

51. RCDF, Comercio, 560-3-207-179 and folio mercantil 19.368, volumen 560, tomo 30, foja 207, asiento 179.

52. IMPI, Marcas, registro 71.482, marca 84.810.

53. Moreno (2009b).

54. *Pan*, Mexico City, 1962 (116), p. 27.

*Bimbo* partner who had not taken up Mexican citizenship. In 1963, he returned to Spain with the aim of setting up a sliced bread bakery, influenced by the rising growth of *per capita* income following the 1959 approval of the liberalizing measures for the Spanish economy recommended by the IMF<sup>55</sup>.

In June 1964, *Bimbo S.A.* was set up in Barcelona, with two million pesetas in capital, which was expanded to 25 million in September of that year, 95% of which was owned by Jaime Jorba<sup>56</sup>. None of the shareholders of *Panificadora Bimbo*, except him, participated in the company. José Trinidad Mata was appointed manager and given the responsibility of building the Granollers plant, on the outskirts of Barcelona. On 15th February 1965, the first batch of baked bread came out of the Spanish *Bimbo* factory which a year later started the manufacturing of industrial buns and cakes<sup>57</sup>. At that time, work was already underway on the new plants in Madrid, Antequera (Málaga), Solares (Santander) and Palma de Mallorca.

Unfortunately for the interests of *Bimbo*, Jorba was not the first to realize the possibilities of economic gain in Spain. Simultaneously, and following a visit to the United States in 1963, the Catalanian businessman Andrés Costafreda decided to set up a plant just a few kilometers away from the *Bimbo* plant, where he was to make sliced bread and doughnuts, sold under the *Panrico* brand name. *Bimbo* had to start off its operations in Spain by facing a powerful competitor, quite the opposite of what had happened in Mexico.

### **Mexico and Spain: the two Sides of the Coin, 1966-1979**

In 1966, *Panificadora Bimbo* overcame the crisis which had been set off by Velasco's resignation, recovering the spirit of innovation which he had previously inspired in the firm. The company thereafter saw exceptional financial results in years of strong growth and low inflation, a unique period in the turmoil of Mexico's Economic History. Its accounts only worsened in the final years of the decade, caused by the uncertainty of the student unrests in October 1968 and between 1971 and 1973, due to the temporary recession which the Mexican economy went through during those years<sup>58</sup>.

*Bimbo* went ahead with its territorial expansion policy, with the opening of plants in Hermosillo (1966) and Puerto de Veracruz (1970)<sup>59</sup>. In 1972, it organized new installations in Azcapotzalco, an industrial area in the north of Mexico City.

55. Jorba also set up a supermarket chain.

56. RMB, hoja 9.467 and OEPM 291.655.

57. Moreno (2007).

58. Tello (2007), pp. 451-476.

59. *Pan*, Mexico City, 1965 (137), p. 9 and RCDF, Comercio, folio 282.039.

However, *Wonder*, which practically maintained its market position intact in the industrially-manufactured cakes segment, became an obstacle to *Bimbo*'s progress. *Bimbo* uselessly tried to neutralize this by flooding the market with new cakes since it was necessary for it to open new niches where its rival did not compete. Therefore, *Bimbo* signed a strategic alliance with *Quality Bakers of America*, a company founded in 1922 in New York. A new subsidiary was thus born, *Alimentos Internacionales, S.A.*, which manufactured the *Sunbeam* line of products under licence from the U.S. company<sup>60</sup>. Furthermore, in 1971 *Panificadora Bimbo* also explored the possibilities of the sweet and chocolate segment, with the *Barcel* firm (named in honor of the city of Barcelona)<sup>61</sup>. Starting in 1974, the new company manufactured a lollipop under the name of "*Payaso*", completely closing off the Mexican market to the Spanish *Chupa-Chups* company. They were not as lucky in the snacks market, controlled by *Sabritas*, set up in 1943 in Mexico City and, since 1966, under the control of *Pepsico* through *Frito Lay*.

At the same time, *Bimbo* implemented a growth policy through vertical integration with the aim of reducing transaction costs, an even greater need than ever. Exchange rate instability, the effect of implementing Keynesian monetary policy and embodied in sudden increases in the price of machinery, as well as the stormy diplomatic relations with the United States because of the radicalization of the PRI foreign policy, made it recommendable to do away with its technological dependence.

In 1966, *Bimbo* started using polyethylene packaging, manufactured by a company called *Converflex* which had been set up for that purpose by *Bimbo*'s own shareholders. Its investment in machinery manufacturing had an even greater repercussion on production. In 1966, a *Departamento de Proyectos Especiales* [Special Projects Department] was created, as a section of the Corporate Area. However, what was initially only a responsible section for designing projects to improve the plants, in 1973 became the *Taller General de Maquinaria* [General Machinery Workshop], which started the manufacturing of ovens and equipment with its own patents. In this way, *Grupo Bimbo* reduced its technological dependence on U.S. firms by 40%. From that year onwards, *Marinela* was also able to do away with its external jam supplies, which were offered from then onwards by the group company *Frexport*, with a factory in Zamora (Michoacán).

In 1970, IBM computerized the Group's sales and accounting areas. The use of the perforated-card computers offered those responsible for the company immediate practical information on the profitability of each sales route and plant production.

60. *Pan*, Mexico City, 1966 (149), p. 26.

61. This investment was the result of the takeover of a chocolate company which had been founded by Fernando Servitje and which went into bankruptcy that year.

Meanwhile, in Spain *Bimbo* was not prosperous due to fierce competition from *Panrico*, which meant the group directors had to become even more directly involved. Lorenzo Servitje, a member of the Board of Directors of *Bimbo España* since 1971, and his nephew, Mauricio Jorba, took control. Immediately afterwards, they signed a technology transfer contract with the U.S. company *Campbell Tagart Inc.*, in exchange for it becoming a shareholder. The Spanish chemist and also employee of the U.S. firm, José Rubí, participated in the preparation of this agreement<sup>62</sup>.

Servitje's intervention and *Campbell's* assistance offered fruit in the short-term. Sliced bread finally entered the Spanish diet with strength. Mexico offered resources to build three new plants between 1973 and 1975. Staff numbers increased from 748 employees in 1971 to 2,864 in 1975<sup>63</sup>.

With respect to Mexico, in spite of President Echevarría's promises, who had made price-control his main objective, bread increased in price considerably in 1975, which led to an immediate fall in consumption<sup>64</sup>. The 1976 devaluation and the inflationary spiral that it unleashed had even more damaging consequences for *Grupo Bimbo* (Figure 1).

Those responsible for the firm tried to overcome the recession using the same instruments that they had used ten years before in similarly adverse economic circumstances: territorial expansion and diversification. During the second half of the 1970s *Panificadora Bimbo* built new plants in Irapuato and Villahermosa, and, in 1977, started work on the *Marinela* plant in Guadalajara.

The company's priority during those years was the incorporation of higher value products to their range. The first challenge in this regard was the making of "Tía Rosa" *tortillas*, which started in 1977. By then *Bimbo* satisfied the demand of all varieties of industrial bread<sup>65</sup>. Of even greater importance was the creation of a line of snack products following the takeover of the *Kellogs* factory in Querétaro<sup>66</sup>. Such was the success of this initiative that unit sales increased some 238% between 1979 and 1980<sup>67</sup>.

*Grupo Bimbo* was able to overcome the decline and take advantage of the temporary economic bonanza caused by the increase in the price of petrol. Lorenzo Servitje (then a member of the Board of *Banco Nacional de Mexico*) continued his upward growth in the Mexican business world while also developing his philanthropic work, then through the *Fundación Mexicana para el*

62. RMB, hoja 9.467.

63. Moreno (2007), p. 132.

64. BMLT, Archivos Económicos, caja PO9140.

65. IMPI, Marcas, expediente 54.105, registro 168.816.

66. RCDF, Comercio, folio 7.579, . 282.461 e IMPI, Marcas, registro 48.064, expediente 164.54. The new company was called *Barcel* and the branch of the holding company that had that name before that was then rename *Ricolino*. The first product made by *Ricolino* was called "Pasita", a raisin without seeds.

67. IMPI, Marcas, expediente 116.674, registro 255.612.

*Desarrollo Rural* [Mexican Foundation for Rural Development] which he had set up<sup>68</sup>.

Meanwhile, the situation in Spain was somewhat less promising. The Group had grown excessively and too quickly, especially in the sales area. In 1974, the first signs of alarm were to be seen with the fall in profitability by almost twenty percent. Profits fell in 1975 by 52.5%<sup>69</sup>. The stagnation of sales volume, caused by bread price-control by the Government in order to control social protests following Franco's death in 1975, as well as negative financial results made *Bimbo España* register losses between 1976 and 1980. Staff mobilizations (excessively) alarmed the directors of a company which had not even had a minor industrial relations conflict in its 30-year history in Mexico. Convinced that Spain, in a fully-fledged democratization process, would experience political changes which would be very damaging to the market (something which of course did not happen), on 9th December 1978 Jorba decided to sell his shares to his U.S. partners, without consulting with the rest of the family, which led to the unexpected resigning of Lorenzo Servitje and José Trinidad Mata<sup>70</sup>. *Panificadora Bimbo* thus lost its rights over the Spanish subsidiary. What was even worse was that *Campbell Tagart Inc.* could make use of the *Bimbo* brand on the Spanish territory without the slightest legal problem.

### **Changing the Family Structure, 1980-1989**

Its failure in the home country of the founders of *Panificadora Bimbo* was a real setback for the firm. Immediately following this sad withdrawal from Spain, Roberto Servitje, who had been trained in the Program for Management Development at Harvard, took over the control of a company which was by then of considerable size.

His first step was to sell off 25% of the company on the Stock Exchange in 1980, an enormous decision for a family-owned company, particularly in a country such as Mexico, with quite limited Stock Exchange activity. With this move, Roberto Servitje intended to make the employees participate in the ownership of the company (they went on to own 12% of the capital) and obtain resources to set up the new plants belonging to *Bimbo del Pacífico* (in Mazatlán) and *Bimbo Chihuahua*, as well as to start the expansion of *Barcel*<sup>71</sup>. At the same time, *Bimbo* spent 200 million dollars on the refurbishment of its 22 factories.

68. Cherem (2008), p. 208.

69. Moreno (2007), p. 132.

70. RMB, hoja 9.467.

71. RCDF, Comercio, folio 7.579, número de entrada 8.398.



In short, *Bimbo* had exceeded the growth limits possible within a family structure. With the transfer of authority from Lorenzo to Roberto Servitje, the drawbacks of the pyramidal and personal management style disappeared, a style which was very appropriate for the company at its outset when decisions had to be made which were almost heroic, but a style that was now outdated. The stock exchange listing forced the company to greater transparency and greater contact with potential investors. The strengthening of the company could not rely solely on the guarantees and bonds of blood ties.

However, the perspectives on which Roberto Servitje based his new strategy changed due to the deteriorating economic situation of the country, once again shaken by inflation. Due to Governmental intervention, with the aim of controlling prices, in 1982, *Bimbo* had to do without its promotional advertising, an instrument which had until then been an essential part of the company's successful performance. During that year, gross turnover in nominal terms fell some 18%. The nationalization of banks proposed by President López Portillo in 1982 extraordinarily darkened business expectations. The situation worsened in 1984, when the *Departamento de Comercio* ordered a complete intervention of the sliced bread market, which had, in theory, been free since 1941<sup>72</sup>. The sales (in volume terms) of *Barcel* fell 300%, *Marinela* 5.6%, *Bimbo* 3% and *Ricolino* 32.7%<sup>73</sup>.

Meanwhile, labor and energy costs increased substantially. For the first time in three decades, *Panificadora Bimbo* had to go into debt, which led to extraordinarily high financing expenses<sup>74</sup>. The fall of profitability (Figure 1) is proof of the extent of the difficulties which the company was going through. In such a vulnerable situation, several transnational companies presented generous buy-out offers for *Bimbo*, which the Servitje family rejected<sup>75</sup>.

Following the 1985 earthquake, turbulence returned to the market due to the De la Madrid Government's erratic policy. In a context of hyper-inflation, the Government made the mistake of eliminating aids to sliced bread, the most accessible product, thus raising the price 100% and causing a severe fall in sales<sup>76</sup>. The bakers reduced their activity 50% in 1986. The stock market crash of 1987, very noticeable in the case of *Bimbo*, complicated things for the company (Figure 2). The negative outlook made *Bimbo* managers postpone the re-

72. BMLT, Archivos Económicos, caja PO127.

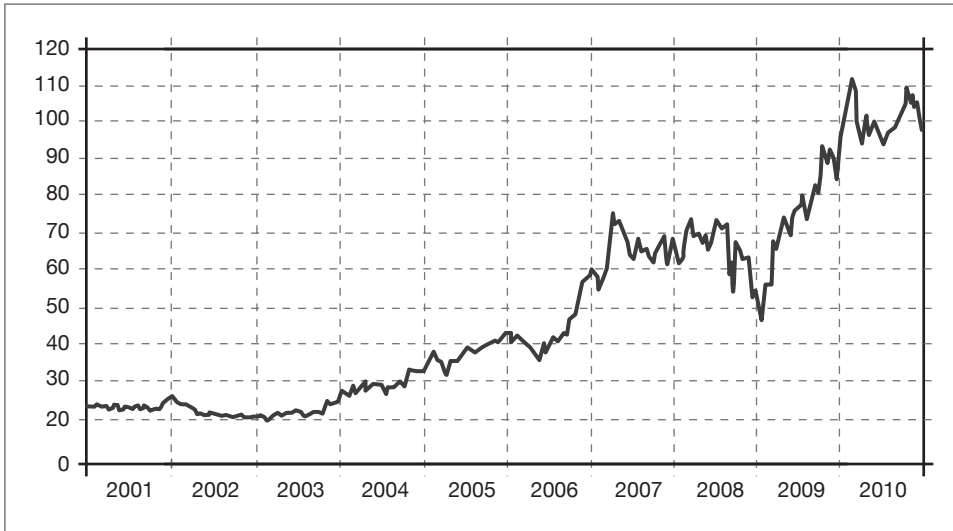
73. IMPI, marcas, expediente 48.64, registro 164.584, expediente 116.674, registro 255.612, expediente 71.482, registro 84.810 and expediente 108.621, registro 113.776.

74. RCDF, Comercio, L4-125-349-398, L4-57-384-399, L4-74-346-331, folio 759, números de entrada 3.364, 7.717, 7.718 and 8.617.

75. BMLT, Archivos Económicos, caja PO127.

76. BMLT, Archivos Económicos, caja PO127. The Government's only correct move was to facilitate the consumption of omelettes among the populations without resources (through vouchers called "tortibonos") in order to thereby tackle the lack of products of first necessity all over the Republic.

**FIGURE 2** ▪ Share Price of Bimbo Group Stock on the Mexican Exchange, 2001-2011 (1990 pesos) (logarithmic scale)



Source: Archivo de la Bolsa Mexicana de Valores.

covery of the control of their former Spanish subsidiary when it was about to take place that year. Only with the introduction of anti-inflationary measures included in the *Pacto de Solidaridad* approved by President De la Madrid in September 1987 did calm return to the markets.

The company was able to respond to such an adverse situation through detailed planning in each area of work and it returned to positive growth in 1988 (Figure 1). The mistakes made in Spain in a similar situation had helped them. *Bimbo*, on the other hand, had some margin for error due to the low debt level it had compared to other large Mexican industrial corporations.

*Bimbo* overcame the aforementioned obstacles through a cost reduction program (4% in 1987)<sup>77</sup>. Those responsible for the Group also set up what was called the “total quality plan”, a one-second improvement in productivity at all plants, and the “total presence plan” that aimed at completing the expansion objectives of reaching all Mexican territory with the *Bimbo*, *Marinela* and *Barcel* brands. *Bimbo* was able to successfully develop this strategy, not only without the need to handle labour disputes that considerably damaged other firms, but also with the full support of unions because of subsidies received by workers, subsidies that were inspired by traditional Catalan paternalism and the social doctrine of the Catholic Church referred to in previous pages.

77. BMLT, Archivos Económicos, caja PO127.

Due to the tremendous uncertainty of the Mexican economy, it was advisable to persevere in the vertical integration of the Group with even greater determination. *Bimbo* supplied itself with machinery through the *Taller General de Maquinaria*, renamed *Maquindal* in April, from which *Moldex* had broken away; this company centered its activity on the manufacturing of molds and display equipment and became the largest manufacturer in the world. *Proarce* supplied vehicles which guaranteed maximum security in years during which attacks on trucks were commonplace. *Plasticmarx* supplied the packaging<sup>78</sup>. *Exbim* took care of the legal paperwork and tariff payments in foreign transactions. Although the company was well able to supply itself with everything it needed, it imposed a minimum external purchase percentage of 25% on itself in order to maintain good relationships with the rest of Mexican agricultural and food companies.

However, *Bimbo* paid special attention to its diversification strategy, taking advantage of the possibilities of buying out food companies that were facing difficulties and that were offered to it. Among those was *Wonder*, which became part of the Group in 1986, along with its flour subsidiary *Molino Cuatémoc*<sup>79</sup>.

The takeover of its U.S. rival, even though it was from that country that the technology had come from and it was there that they had received their training, is the best evidence of Servitje's managerial achievements. *Wonder* had made a mistake in concentrating on economies of scale and on a very specific market: upper-class families. *Bimbo* survived thanks to the guarantees of its diversification and its excellent relationships in the business and political environments, relationships which the Americans did not build.

From then onwards, *Bimbo* enjoyed an absolute monopoly position in the Mexican sliced bread market, a position which had been reached thanks to its own resources and not to government aid or influence.

### A Globalized Company (1990-2005)

The 1990s began with new inflationary pressures and stock market shocks in 1991-92. The Government and social partners failed to understand the messages of suffering coming from the markets in 1994 and the lack of reserves was such that the Zedillo government had to devalue the Peso, leading to a frightening stock market crash. *Bimbo* itself suffered the so-called "tequila crisis" or "December mistake" (Figures 1 and 2). In the midst of such adverse conditions, for the first time in almost three decades, two competitors appeared which were able to cast a shadow on the Servitje's company: *Gamesa*, from

78. RCDF, Comercio, folio 48.060 bis, número de entrada 9.532.

79. Núñez (2002), p. 8.

1990 onwards and linked to *Pepsico*, and *Gruma*, a Monterrey firm whose managers abandoned its policy of not competing with *Bimbo* in the sliced bread segment in 1994<sup>80</sup>. At the same time, the deregulation of the flour and sugar markets in 1991 caused series supply shortages, forcing *Bimbo* to import products in which Mexico had surplus production.

Of course, *Bimbo* knew how to overcome the contingencies caused by the 1994 devaluation. In fact, during the second half of the decade the company made its best ever profits.

*Bimbo* had to intensify its presence in the manufactured foods market through direct investment and the buying out of companies. Following a failed attempt to take over *Cuétara*, in 1992, *Bimbo* bought *Galletas y Pastas Lara*<sup>81</sup>. The purchase was of tremendous strategic importance for *Bimbo*, since it was able to compete with *Gamesa* in the cracker segment. Two years later, it went on to control the Lerma firm *Suandy*, founded in 1971<sup>82</sup>. Between 1995 and 1999, following the purchase of companies facing difficulties, it included in its activities the manufacturing of milk caramel and pasta soup<sup>83</sup>. *Bimbo* also vertically integrated the elaboration of flour and sugar by taking over mills and sugar refineries all over the country.

*Bimbo*, however, in response to the challenge posed by *Gamesa*, made an even more intense effort in distribution than in production. In fact, from 1995 onwards, the term “Industrial” disappeared from its name. To that extent, in 1993 it signed an alliance with *Grupo Quan*, the largest ice-cream producer in Mexico, taking out a 40% stake in the company, and with *Sara Lee Baker* from the U.S., with which it created *Dicam* as a result of the transformation of the *Marinela de Occidente* company<sup>84</sup>. In 1995, it was divided into three independent organizations: *Bimbo* (bread), *Marinela* (cookies and buns) and *Altex* (vertical integration).

With the aforementioned agreements, *Bimbo* reached its summit in the Mexican market which was mature in the sectors in which it operated. The Group had fulfilled its objective of expanding to all of the Mexican territory, a goal which it had had for a long time. Neither was it likely that attractive buyout offers would come up in the dairy, rice or oil sectors, then in the hands of strong companies.

The time had come to check out potential in the rest of Latin America, as did other Mexican corporations such as CEMEX, *Alfa*, *Vitro*, *Televisa* and even *Gruma* itself<sup>85</sup>. Daniel Servitje, Lorenzo Sertvitje’s son, took on this re-

80. Moreno (2009b), p. 1072.

81. IMPI, marcas, expediente 58.266, registro 74.745.

82. IMPI, marcas, registro 170.395.

83. IMPI, marcas, registro 8.376 and expediente 110.576, registro 224.122.

84. RCDF, Comercio, folio 154.485 and Basave (1996), pp. 212-223.

85. Garrido (1999).

sponsibility and applied the so-called “Expansion Plan” which had been drafted in 1989. The document foresaw a 100 million dollar investment, which was obtained through a bank loan signed in November 1991 with the *World Bank* as well as the placing of an additional 4% of its capital on the stock market<sup>86</sup>.

The growth strategy –and it could not be otherwise– was very similar to that used by Spanish companies in their internationalization during that period<sup>87</sup>. In fact, as we will see later on, the company expanded abroad, inter alia, through partnerships with companies in Catalonia, with which it shared objectives and a “genetic base”. *Bimbo* was inclined towards Hispanic markets, trying to profit from consumer habits similar to those of Mexicans, similar institutions which facilitated links with Government, and the enormous advantages of a common language (an asset the economic dimension of which cannot be underestimated) which range from reduced advertising costs to the ease of communication with the economic and political agents. The company thus knew how to value investment opportunities on the American continent which other firms, limited to the Mexican market, did not even ponder<sup>88</sup>.

In 1990, *Bimbo* built its first plant on the Continent outside Mexico: in Guatemala. Following this investment, it extended to Chile, Venezuela (both in 1992), Costa Rica (1994), Honduras and Argentina (1995), Colombia (1996) and Peru (1998). Its penetration in these markets was done in three different ways: direct investment under its own brand (Argentina, a very promising market because of its high *per capita* bread consumption), the taking out of existing firms (Chile) and the signing of agreements with domestic companies in those countries (Colombia, with *Nöel*). That is to say, exactly as other Spanish (and of Catalan origin, such as *Bimbo*) food firms did<sup>89</sup>.

The first steps taken in those countries were challenging, as can be seen from the financial accounts. *Bimbo* management had to face the lack of consumption of packaged food as well as the interventionism of Governments in food markets, particularly in Argentina, which was a real ordeal for the Group between 1995 and 2001<sup>90</sup>. Thus, Group sales in Latin America only represented 7.5% in the year 2000.

*Bimbo* simultaneously decided to conquer the U.S. market. Those responsible for the company had cherished this idea practically since the outset, influenced by the U.S. Spanish-speaking population’s purchasing power and their consumption loyalty to their home countries. However, all efforts to do so had failed until the signing of the Free Trade Agreement that encouraged them to

86. BMLT, Archivos Económicos, caja PO127.

87. Guillén (2005) and (2006).

88. Becker (2004).

89. Moreno (2009c).

90. Cherem (2008), p. 317

build *Marinela* and *Bimbo* plants in Baja California, with their sight set on exporting rather than on the domestic Mexican market<sup>91</sup>.

In 1993, *Bimbo* changed its strategy and decided to take on the market through the purchase of small plants within the United States, plants which had been set up by Mexican immigrants. The following: *La Fronteriza* (Ohio, 1993), *Fabilia* (Sacramento, 1994), P&P (Houston, 1995), *La Tapatía* (Elk Grocem, 1995) and *Pacific Pride Bakery* (Escondido, 1996)<sup>92</sup>.

It was not an easy change. The initial strategy which consisted of operating with the Mexican brands (*Tia Rosa* for *tortillas* and *Bimbo* for sliced bread) was an absolute disaster. The results left a great deal to be desired and a change of policy was essential in order to use a brand which was known in the U.S. market so as not to limit itself merely to the Hispanic population. To this end, *Bimbo* took over *Mr. Birds*, which had six plants in Texas, and made it the fourth largest bakery in the United States, where its turnover in 2000 was 18% of the Group's total income. The subsidiary in that country had finally offered profits (Figure 3).

*Bimbo* financed this growth firstly through its own resources, and in 1998, through an expansion of its capital stock (the number of shares outstanding was multiplied by three). However, once the pressing financial needs were addressed, the family once again gradually reduced the capital stock that could be subject to speculation back to its original levels (25% was considered the strategic maximum).

Meanwhile, and for the second time, in 1995 *Grupo Bimbo* had the opportunity of recovering its old Spanish subsidiary, an opportunity which it could not take<sup>93</sup>. The Servijte family also received an attractive buyout offer *Panrico*, which was rejected because it would have been an obstacle to the rescuing of *Bimbo*, in application of European competition rules. The difficulties therefore continued in its attempt to enter the attractive European market by taking advantage of synergies generated by commercial and social links with Spanish business leaders (especially with those from Catalonia). This is because *Bimbo* could not operate under that brand name and it was not feasible to do so with another.

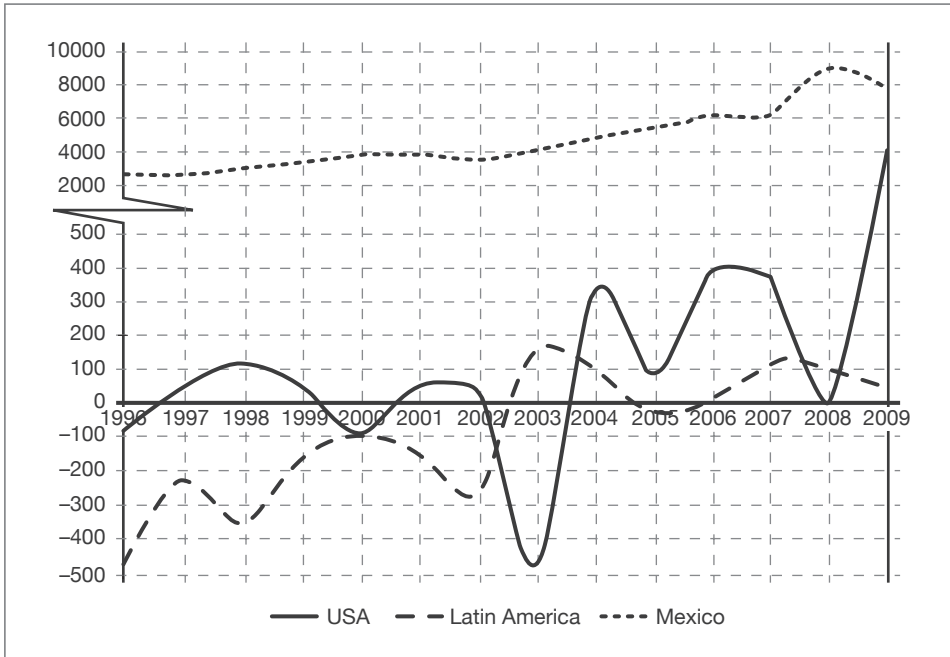
Following this incident, in 1998 *Grupo Bimbo* returned to Europe with the aim of exploring the markets in the East of the continent. This was the objective of the purchase of the German jam company *Park Lane*, which had plants in Vienna and Ostrava, in the Czech Republic. However, the Mexican company only participated in the sweet foods market, not in the sliced bread one. Furthermore, the initiative was a failure and *Bimbo* did not take long in getting rid of that company.

91. RCDF, Comercio, folio 282.167.

92. Cherem (2008), p. 318; Hernández, Fogel and Miranda (2003), pp. 177-180.

93. Moreno (2007), p. 138.

**FIGURE 3** • Net Profits Earned by Bimbo by Geographical Areas (1996-2009) (millions of Mexican pesos)



Source: Grupo Bimbo, Annual Report(s), (Mexico City), 1996-2009.

The Asian financial crisis of 1997, which spread to Latin America in 1998-1999 had a considerable impact on the financial results of *Grupo Bimbo* (Figures 1, 2 and 3). Daniel Servitje then took control of the company. The appointment of the new head of the company broke Hispanic business traditions by drawing on the Anglo-Saxon principles of free appointment. Daniel Servitje was not Roberto Servitje's son, but his nephew. Moreover, neither was he Lorenzo's first born son, but the youngest of eight siblings. In any other Mexican business, his future career would have been outside the company. However, his training and experience in Latin American markets created a path for him to the top of the group. Thus, through professionalization and the choice of the best-prepared candidate, *Bimbo* was able to keep its family nature intact.

The new Director General decided to undo the vertical integration of the supply of raw materials and equipment and sold most of the sugar, flour and jam plants as well as *Altex*, an umbrella subsidiary created in 1991 to watch over the non-food companies of the group. The aim was to concentrate all efforts on the baking business, reduce high labor expenses and obtain income to

ease debt. In spite of all those measures, the family managed to retain control of some of those companies partially sold.

Even greater was the deterioration suffered following the 11<sup>th</sup> September 2001 attacks and the Argentinean capital market collapse. *Bimbo* went through this recession in full political changes following the victory of PAN in the 2000 presidential election.

It did not take long for *Bimbo* to recover the pulse (Figures 1, 2 and 3), having previously simplified its management structure in 2002. Once again, the organizational changes took place before the periods of largest growth for the company. The Group was now made up of four divisions: *Bimbo* (bread, cookie and bun businesses in Mexico), *Barcel* (snacks and sweets, both there as well as in Europe), *Bimbo Bakeries USA* and *OLA* (Latin America). However, the restructuring of the oversized workforce did not take place and the advice of several consultants—following the 1994 crisis—fell on deaf ears. *Bimbo* managers, following those same principles which had guided the ordering of the industrial relations of the company since its very beginning, opposed the idea. Instead, they relocated excessive workforce in auxiliary posts that generated zero Gross Added Values. At the cost of losing competitiveness in the short term, the company won the support of the unions in implementing its future growth plans.

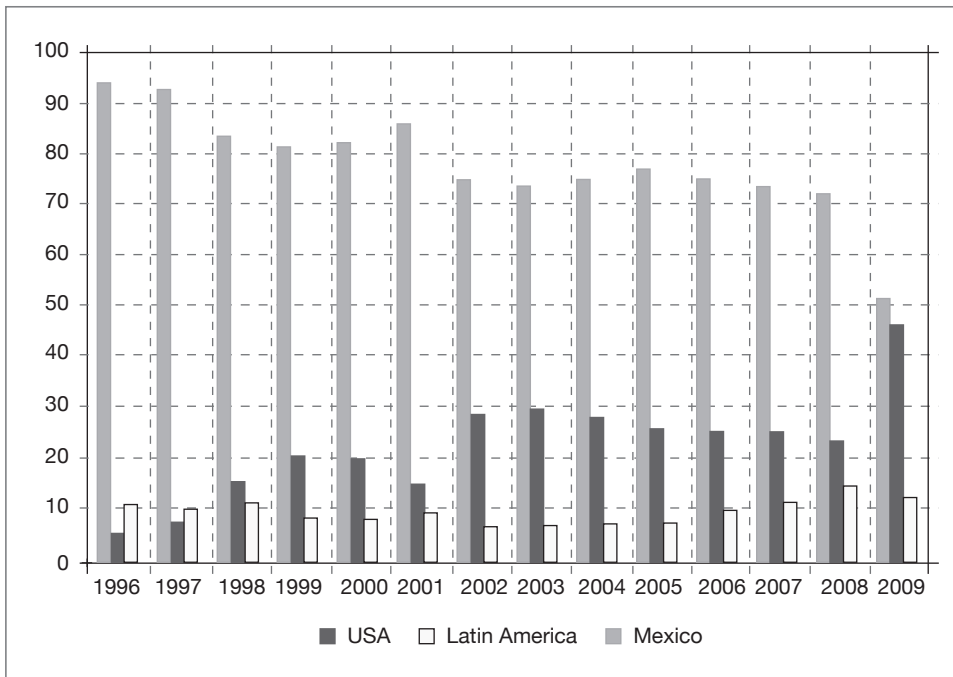
The economic situation had an effect above all on the Latin American subsidiaries, whose financial results were quite disheartening. Additionally, sales figures were somewhat poor in spite of the large expanse of the market (Figure 4). *Bimbo*, however, had learned a lesson from its bad Spanish experience: the need to persevere and immunize against political changes. The parent company could withstand the losses. The Latin American option was a long-term bid. Following the example of Spanish companies, it was better to persevere, even when reporting losses, and even take advantage of the impatience of other European investors by cheaply acquiring companies they had abandoned, alarmed by the economic downturn. In fact, it took advantage of the weaknesses of domestic bakeries to penetrate the most populated and promising market in South America: that of Brazil.

It was time once again to take a new leap to the U.S. *Bimbo* was as well-managed and capitalized as the firms operating there (no wonder since it was a replica of American technological and managerial processes). However, unlike those companies it had suffered less under the recession of the early twentieth century, was well established in the Hispanic market and enjoyed the comfort that its monopoly position in Mexico represented.

In 2003, for the first time, the Latin American companies of the Group made a profit, which enabled *Grupo Bimbo* to take over new firms in Colombia and, later on, in Paraguay and Uruguay, which they had been fruitlessly trying for a decade. By then it was easily the largest bakery in Latin America.



**FIGURE 4** • *Geographic Distribution of Bimbo Group Sales (in percentages)*



Source: Grupo Bimbo (1996-2009), passim.

In 2002, having overcome the after-effects of 9-11, *Bimbo* once again took up its growth policy in the United States. The Mexican firm took advantage of the weakness suffered by the bakeries operating in the United States (Tables 3 and 4) in order to enter their market.

The new attempt to conquer the U.S. market started with the acquisition of one of the subsidiaries of the Canadian company *Weston Foods Inc: Oroweath*, based in California. Following this investment, and also thanks to a reduction and rationalization of the product range, *Bimbo USA Bakeries* had quite promising financial results (Figure 2).

Moreover, while other American competitors such as *Sara Lee Baker* and *Nabisco* chose economies of scale as their strategy, *Bimbo* continued its policy of extending its range in the belief that access to new market segments would guarantee income maintenance during times of crisis. The impression left by the founder, Lorenzo Servitje, remained: Patience and diversification should be the company's guide.

With respect to the internal market, *Grupo Bimbo* paid more attention to the bun and sweet businesses. In 2005 it acquired *El Globo*, opened in 1884 by the Italian Taconi, the owner of a distribution network throughout Mexico

**TABLE 2** • *World Largest Bakery Companies' Return on Average Net Assets, 2001-2009*

Year	<i>Bimbo Group Mexico</i>	<i>Sara Lee USA</i>	<i>Bimbo Spain</i>	<i>Weston Canada</i>	<i>Kamps Ag Germany</i>	<i>Flower Foods USA</i>	<i>Associated British Food Great Britain</i>	<i>Barilla Italy</i>	<i>Yamazaky Japan</i>
2001	6.6	22.3	5.0	3.7	0.4		6.4	2.8	
2002	2.9	7.3	4.5	4.2	-3.9	-1.6	9.6		
2003	3.2	7.8	3.8	4.5	-3.9	1.6	6.9		
2004	7.7	8.5	7.4	11.5		1.6	7.0		
2005	7.6	4.9	6.2	10.0	-24.9	5.8	5.8		0.8
2006	8.4	2.4	5.6	3.2	-2.0	8.9	4.7	1.5	1.2
2007	8.4	4.2	2.3	6.7	-5.1	10.3	8.0	1.5	1.0
2008	7.4	-0.7	0.0	11.2	-9.0	8.7	7.5	1.9	1.4
2009	6.2	5.3	-6.3	9.3	28.5	9.6	9.9	-3.1	5.7

Source: Annual companies reports.

**TABLE 3** • *World Largest Bakery Companies' Return On Average Common Shareholders' Equity, 2001-2009*

Year	<i>Bimbo Group Mexico</i>	<i>Bimbo Spain</i>	<i>Weston Canada</i>	<i>Associated British Food Great Britain</i>	<i>Barilla Italy</i>	<i>Yamazaky Japan</i>
2001	11.7	9.0	16.1	6.4	9.3	
2002	6.7	7.6	15.7	9.6		
2003	6.1	3.2	17.7	6.9		
2004	15.4	7.4	14.8	7.0		
2005	14.6	37.3	16.7	5.8		0.8
2006	14.7	32.0	1.3	4.7	7.4	1.2
2007	13.1	30.9	12.7	8.0	7.3	1.0
2008	14.5	13.7	13.4	7.5	12.6	1.4
2009	12.2	-3.0	1.5	9.9	-25.9	5.7

Source: Annual companies reports.

City and of a factory which had been inaugurated in 1967<sup>94</sup>. The Servitje family agreed on the purchase with Carlos Slim, the third wealthiest man in the world in 2008 according to *Forbes* and owner of the *Grupo Carso*, with which they had always had a cordial relationship. In that year they also acquired half of *Joyco*, dedicated to the manufacturing of chewing gum and which was bought from the Spanish company *Agrolimen*, based in Barcelona. In June 2006, following the death of Fernando Servitje, *El Molino* became part of *Grupo Bimbo*, eighty years after its founding<sup>95</sup>.

However, the family did not manage to solve the irregular Spanish situation. In spite of the intentions of *Sara Lee Baker*, the new owner of *Bimbo España* from 2001, to sell the company off, the conversations between the two giant corporations, allied in Mexico, led to no result.

### **The Great Assault, 2006-2010**

During 2006 the wheat price on the Chicago market hit its highest historical maximum for the previous 23 years. The increase in the cost of raw materials (linked to the labour costs in the case of bakeries in the U.S. following the renewal of agreements with unions in 2005) had tragic effects for large companies, both in America and Europe (Tables 2 and 3). *Sara Lee* was particularly hard hit by this price behaviour, as can be seen by its share price (Figure 5). The situation undoubtedly also affected the *Bimbo Group*, as evidenced by the drop in its stock price (Figure 3). However, inflation punished its results much less. The company, strengthened by the situation, went out again on the hunt for troubled bakeries.

In March 2006, the opportunity arose to acquire the Chinese subsidiary of *Panrico*, the *Beijing Panrico Food Processing Company*, following the withdrawal from the business world of the Costafreda family<sup>96</sup>. Thus *Bimbo* managed to get a foothold in the immense Chinese market through its main competitor in Spain.

Simultaneously, *Bimbo* took over new companies that were in agony, in Uruguay (*Los Chorchantes*), Guatemala (*Pan Europa*), Colombia (*Productos Roma*), while it reorganized its facilities in Venezuela, an investment which led to the consolidation of its expansion in Latin America (Map 1), backed by the blessings of leaders such as Lula in Brazil and the Kirchner couple in Argentina, with whom the Servitjes had fostered a good relationship.

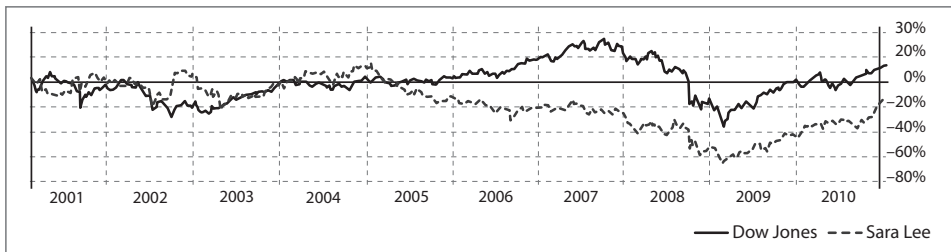
In order to address changes in demand make-up caused by inflation, Bim-

94. IMPI, Marcas, expediente 50.456, registro 68.656.

95. Martínez (2002).

96. Moreno (2007), p. 147.

**FIGURE 5** ▪ Price Variation of Sara Lee Stock on the New York Exchange, 2001-2010



Source: New York Stock Exchange (<http://www.nyse.com/>).

bo brought 151 new products to market. The implementation of SICOM, new computer software used in the organization of its distribution in the United States significantly reduced distribution costs.

The responses in the Mexican market to the price increases, which continued throughout the years 2007 and 2008 were even more ambitious. Firstly, *Bimbo* recovered, in part, its traditional vertical integration policy, especially in raw materials procurement and distribution (Figure 6). Secondly, it signed strategic alliances with two major firms in Latin America (Argentina's *Arcor*, dedicated to the manufacturing of candy and the great Mexican dairy *Lala*) in order to stimulate synergies in the production and distribution of goods. Finally, *Bimbo* increased its presence in the domestic market through a re-design of business networks and a re-arrangement of its factories (Map 2).

*Bimbo* was then the only institution present in all corners of the country, from the most populous suburb of Mexico City to the most remote village, where not even the state, Church, trade unions or political parties reached.

That strategy made *Bimbo* an extraordinarily profitable company while its competitors were experiencing a truly terrible ordeal (Tables 2 and 3). In 2008, *Grupo Bimbo* (Figure 8), then the second-largest bread manufacturer in the world (after *Sara Lee*) and the biggest Latin American food company, had over 91,000 employees in its 57 factories and distributed its products in 18 countries<sup>97</sup>.

The economic crisis that started 2008 had little impact on the group (Figure 1), due to the delay in the effects of the crisis reaching Latin American countries. In fact, it only had a slight and fleeting impact on its share price towards the end of that year (Figure 3). Additionally, *Bimbo* managed to take advantage of the possibilities that the economic situation offered to advance its expansion on the world market.

Once again, *Bimbo* took advantage of that situation to increase its market share in the United States (see Table 4). In December 2008, it formalized the

97. *Grupo Bimbo* (2008), p. 2.

purchase of *Weston Foods, Inc.*, with 35 plants and 15,000 employees, based in Pennsylvania. Following that investment, *Bimbo* moved to meet the demand from all segments of the U.S. population, according to their ethnicity and income level, with a variety of products ranging from Mexican *tortillas* to muffins and bagels. Again, diversification had allowed it to win the battle against native firms who were reluctant to follow the now prevailing dogma of diversification. *Bimbo* was no longer a Mexican company limited to the Hispanic market, but a firm present in the large population centers of the East and the West of the country.

It is true however that *Bimbo's* labour relations based on Christian humanism failed to fit in with U.S. relations. In fact, the Servitjes encountered belligerent trade unions which they were not used to in Mexico. On the other hand, however, the incorporation of U.S. directors brought a new management style to the company which allowed it to free itself of the burdens of its Hispanic and family origins.

Additionally, with this purchase the *Bimbo Group* only managed to partially enter the U.S. market, very centred geographically in Texas, California and on the east coast (Map 3). In the rest of the country very large baking corporations (most notably Sara Lee) barred its way.

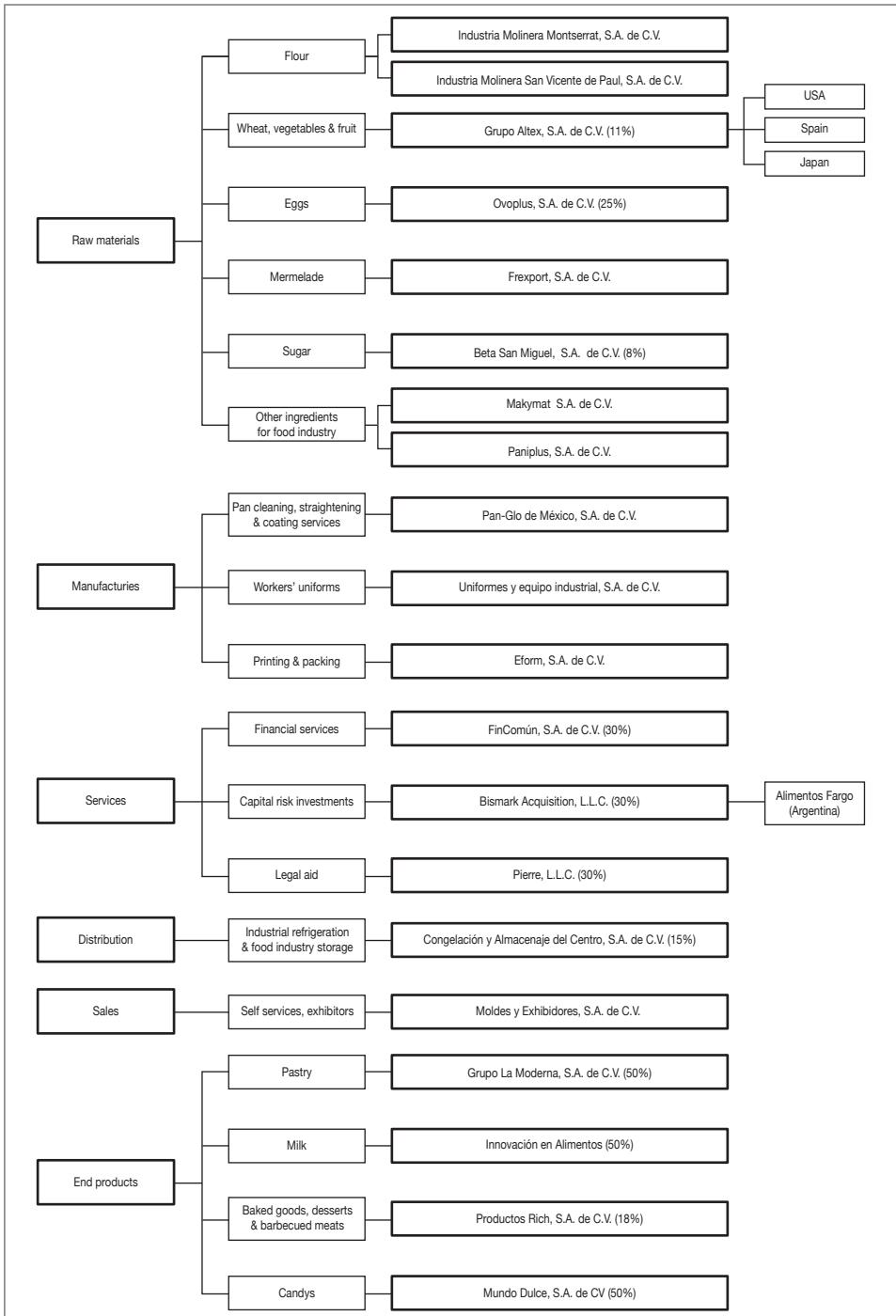
The economic crisis offered the *Bimbo Groups* the opportunity to solve this problem. In November 2010, the Mexican company announced the purchase of the bakery division of *Sara Lee*, then representing 19% of its assets, since the U.S. company was pressed by the dramatic deterioration of its accounts (Tables 2 and 3 and Figure 5). The synergies of the operation allowed *Bimbo* to pay off the investment (about \$900 million) in only five years.

Actually, these purchases made *Bimbo* the largest bakery in the United States, a position that no other Latin American company had ever occupied, an indication of the advancement made by great Mexican corporations from the beginning of the xx century. Furthermore, once the transfer of all assets had taken place, *Bimbo* could operate in Eastern Europe.

However, the agreement did not include the bakery divisions of *Sara Lee* in New Zealand, Australia and Western Europe which provided the group with around \$225 million. In other words, *Bimbo* could not once again take over its old Spanish division.

The comparison of the evolution of its assets with its profitability (Figure 8) provides some added clues on the strategy implemented by Daniel Servitje. Profits in the short run seemed not to compensate the financial effort made by the group towards its growth. However, it was a long-term move and it is from that perspective that his achievements should be judged.

**FIGURE 6** • Bimbo Group's *Vertical Integration*. 2006



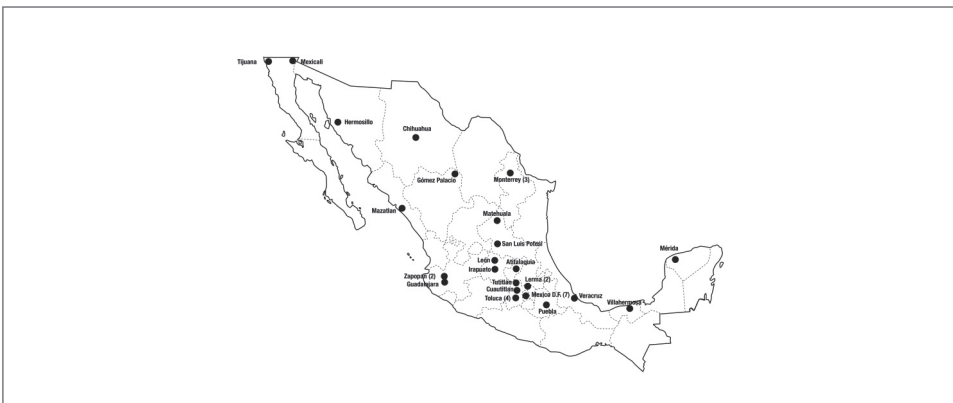
**MAP 1 - Geographic Extension of the Bimbo Group in Latin America in 2008\***



\* Countries in which its products are not sold are shaded.

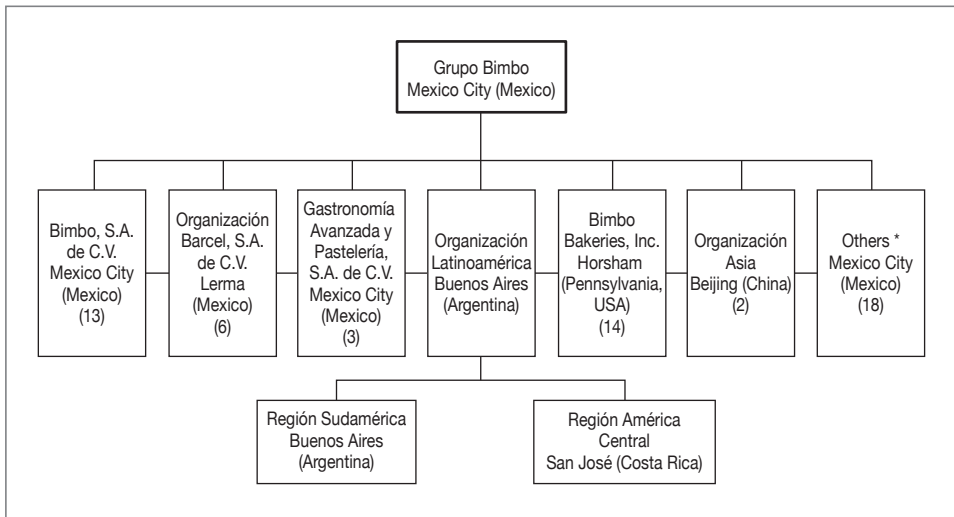
Source: Grupo Bimbo (2008), passim.

**MAP 2 - Locations of Bimbo Group Factories in Mexico in 2008**



Source: Grupo Bimbo (2008), passim.

**FIGURE 7 • Make up of the Bimbo Group in 2008**



\* See Figure 6.

Source: *Grupo Bimbo* (2008), passim.

**TABLE 4 • Main U.S. Bakeries in 2009**

Manufacturer	Headquarters	Sales (million dollars)
<i>Sara Lee Bakery</i>	Downers Grove (Illinois)	642
<i>George Weston Inc</i> (owned by <i>Grupo Bimbo</i> )	Horsham (Pennsylvania)	621
<i>Flower Foods Bakeries Group</i>	Thomasville (Georgia)	603
<i>Interstate Bakeries Corporation</i>	Kansas City (Missouri)	557
<i>Bimbo Bakeries</i>	Horsham (Pennsylvania)	510
<i>Pepperidge farm</i> (owned by <i>Campbell Soup Company</i> )	Candem (New Jersey)	440
<i>Stroehmann Bakeries Inc</i> (owned by <i>Grupo Bimbo</i> )	Thomasville (Georgia)	149
<i>Le Brea</i>	Los Angeles (California)	89

Source: AIB International (<https://www.aibonline.org/index.html>).

## Conclusions

The history of *Bimbo* reveals two of the historical keys to the expansion of Mexican companies and their internationalization since the end of the xx century: The strength of links established by emigrant communities from whom



**MAP 3** - *Geographic Expansion of the Bimbo Group in the United States in 2008*



Source: Grupo Bimbo (2008), *passim*.

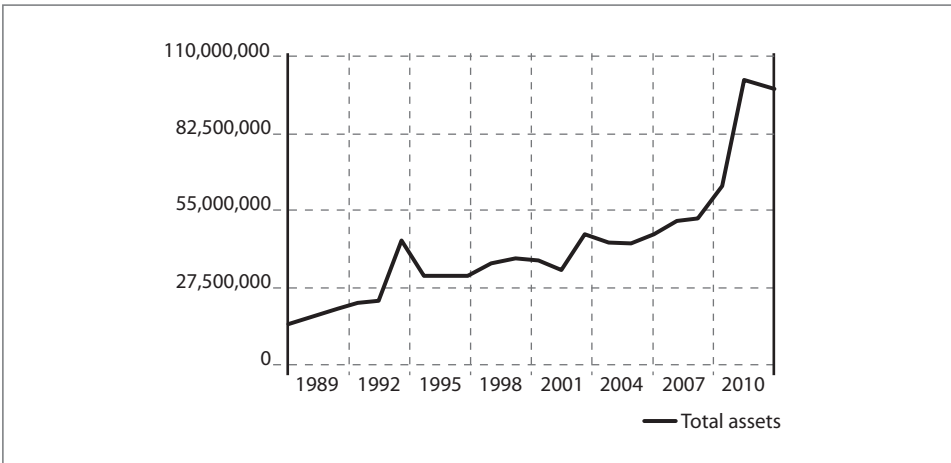
they received the support which the weak Mexican State could not offer them in their first steps, and the early adoption of technology as well as organizational and management changes that first emerged in the United States, thanks to Mexico's geographic proximity.

However, a study of the previous pages reveals other causes of success which were a mystery at the outset of this work. The first resides in the fact that *Bimbo* was well able to move on from being a family-owned company to a large corporation without much difficulty, something unique in Latin American Business History. Practically from the outset, it distanced itself from the patriarchal model of Hispanic business which would have been the likely formula for it to have followed due to the origins of its founders.

*Bimbo* sought to improve its competitiveness through the use of organizational strategies and not so much through technical innovation, which the low salary costs in Mexico and the company's own labor policy discouraged. The company immediately adopted management improvements that came from the United States. Thanks to those policies it avoided sinking when the activity of the group was made up of considerable of subsidiaries.

Its permanent vertical integration was a decisive factor in the company's success, as explained by the failure of Mexican competitors that did not adopt this strategy. It was only through this autonomy in the supply of raw materials and machinery did the company manage to survive in a market with as much intervention as the Mexican market had, subjugated to temporary adjustments and strong uncertainty, both political and economic, especially from

**FIGURE 8** • Evolution of the Total Assets of Grupo Bimbo (in Thousands of Constant 1990 Pesos)



Source: Grupo Bimbo (1989-2010), passim.

1982 onwards. However, the company has applied very flexible policies in this regard in the very short term. When the situation thus required, whether by market uncertainty or price increases, managers integrated raw material production and distribution. In somewhat more peaceful environments, the company did away with those subsidiaries in order to improve its solvency and gain support among its suppliers.

Its policy of seeking out economies of range also harvested outstanding results, a policy which was very suited to the strong segmentation of the Mexican market due to the tremendous inequality in income distribution. In the year 2000, *Bimbo* manufactured products under 5,000 brand names, a range which any other multinational food corporation –worried more about economies of scale– would have reduced considerably, but which helped the company penetrate the U.S. Hispanic and South American markets which had different eating habits. *Bimbo* initially took on this diversification through the creation of subsidiaries. However, in the last quarter of the xx century, the company, having become a type of hospital for companies, changed its policy by rescuing and improving food firms which faced difficulties following the 1976 devaluation and the 1982-1987 and 1994-95 crises.

Its solvency explains the company's growth to a great degree. Its financing through its own resources saved *Bimbo* from the turbulences that shook the Mexican capital markets and the increase in financial costs caused by strong inflationary tendencies.

Neither can we understate the importance of the industrial relations calm that existed in the company throughout its history. Company policy created healthy industrial relations which saved it from conflicts which were so harmful to its competitors.

*Bimbo* received clear support from the State at the outset and during the years of greatest industrial fervor of the PRI government. However, due to its self-financing policy, the little importance of external debt in its books and the almost in-existent dependence on the external supply of raw materials, *Bimbo* did not need much public aid between 1976 and 1994 as did other large Mexican corporations.

All of this thus explains how it was possible for a firm coming from a technologically and economically much less developed country, where even bread consumption was not widespread, to manage to conquer the U.S. market. However, the consideration of the story of this business group leads to other reflections.

The first has to do with the “enclave economies” formed by the Mexican business community from Spain. Especially at the beginning, in a very hostile economic and political environment, in which transaction costs were very high, Servitje could find financial support, trade, technology and management from his Spanish counterparts. It is no accident, we can conclude, that the big Latin American corporations were founded by entrepreneurs from Europe. External economies generated by the national communities of interest were decisive in their creation.

The story of *Bimbo* is proof that the birth of a highly-vertically-integrated large company was possible in a backwards economy, precisely as an instrument to overcome some of the obstacles in the development of activities inherent in this condition: the small degree of market integration, limited access to technology, high transaction costs and political instability. This is the main contribution the current article has made.

Furthermore, this company, like many other Mexican ones of the same roots, used Spain in the 1960s as a “test tube” to set off its internationalization. In other words, Mexican capital investment contributed to the “Americanization” of Spanish business.

However, *Bimbo*’s success story reveals a few weaknesses: What happened in Spain was an uncommon anomaly through which America and Europe operated (and competed) two different companies using the same brand name, a situation which had to do with internal family-based disagreements in the company, which, in spite of the strong management structure built into the company, had finally surfaced.

## ARCHIVES CONSULTED

- AGA: Archivo General de la Administración (Alcalá de Henares, Madrid).  
AGB: Archivo y Museo del *Grupo Bimbo*.  
AGN: Archivo General de la Nación (Mexico City).  
BMLT: Biblioteca Manuel Lerdo de Tejada (Mexico City).  
BMV: Archivo de la Bolsa Mexicana de Valores (Mexico City).  
IMPI: Instituto Mexicano de la Propiedad Industrial (Mexico City).  
OEPM: Oficina Española de Patentes y Marcas (Madrid).  
RCDF: Registro de la Propiedad y del Comercio del Distrito Federal (México City).  
RCJ: Registro de la Propiedad y del Comercio de Jalisco (Guadalajara).  
RCNL: Registro de la Propiedad y del Comercio de Nuevo León (Monterrey).  
RMB: Registro Mercantil de Barcelona.

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***The bread of the Americas. Bimbo: A Mexican Business Success Story, 1944-2010***

ABSTRACT

This article revises the development of *Bimbo* from its creation in 1944 up to the crisis that started in 2008. The objective is to clarify the causes of the worldwide success of this company that was born in an emerging economy under hostile conditions. The theory proposed in this article is that this success is due to several factors: the organizing techniques used, the policy of growth through vertical integration, the good relationship with trade unions, its economies of range and a correct and patient internationalization strategy. Furthermore, the article reveals the role Mexican businessmen played in the spread of American managerial innovations to Spain since 1960.

KEY WORDS: Bakery Industry, Family Firms, Mexican Business History, Spanish Emigration.



***El pan de América. Bimbo: Una historia mexicana de éxito empresarial, 1944-2010.***

RESUMEN

En este trabajo se propone un recorrido por la historia de *Bimbo* desde su creación en 1944 hasta la crisis que dio comienzo en 1944. El propósito es explicar el éxito en su internacionalización de una empresa que nació en una economía emergente bajo condiciones muy hostiles. La tesis que aquí sostengo es que su éxito se debió a varios factores: sus virtudes organizativas, la estrategia de crecimiento mediante la integración vertical, las economías de gama, las buenas relaciones con los sindicatos y una aguda y paciente política de internacionalización. Adicionalmente, este trabajo esclarece la contribución a la modernización empresarial española de las inversiones mexicanas en la década de 1960.

PALABRAS CLAVE: Industria panificadora, Empresa familiar, Historia Empresarial Mexicana, Emigración española.

