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Theoretical analysis of the internationalization process of the Brazilian company JBS

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Abstract

This case study presents a theoretical analysis of the internationalization process of the Brazilian multinational JBS, named after its founder Jose Batista Sobrinho; a company in the food sector which over the past few years has expanded its product lines through mergers and acquisitions in various regions. According to economist Stephen Hymer (1976), it is important to understand that different borders also mean different legal systems and cultural values, which is why this case also analyses the difficulties the company has undergone when internationalizing not only economically but also culture-wise. As mentioned by the Institutional Theory, every multinational more than a business actor is a political one and has social responsibility.

One year after its creation in 2005, JBS started internationalizing by acquiring Swift Amour in Argentina. Sharing a mutual border and being the second largest land mass processing region in Latin America made Argentina the most appealing market for Brazil, a common pattern among multinationals mentioned by the Uppsala Model. This first move also gave JBS the confidence to move into further regions. Currently, JBS has presence in five continents with production facilities in Brazil, Argentina, Italy, Australia, United States, Uruguay, Paraguay, Mexico, China, Russia, among others.

Key words

Internationalization process, Uppsala Model, Institutional Theory, production facilities, location advantages, cultural values, legitimacy, mergers and acquisitions.

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Resumen

Este trabajo presenta un análisis teórico del proceso de internacionalización de la multinacional Brasilera JBS, siglas de su fundador José Batista Sobrinho, una empresa en el sector de alimentos que en los últimos años ha ampliado sus líneas de productos a través de fusiones y adquisiciones en diversas regiones. Según el economista Stephen Hymer (1976), es importante entender que el cruzar fronteras conlleva a diferentes leyes y valores culturales, por lo que en este caso también se analiza las dificultades la empresa ha enfrentado al internacionalizarse, no solo en el aspecto económico pero también cultural. Tal como la Teoría Institucional indica, las multinacionales más que actores de negocios son actores políticos y tienen responsabilidad social. Un año después de su creación en 2005, JBS empezó su proceso de internacionalización mediante la adquisición de *Swift Armour* en Argentina. Compartir fronteras y el ser el segundo país más grande en América Latina, convirtió a Argentina en el mercado más atractivo para Brasil, un patrón seguido por multinacionales indicado por el modelo de Uppsala. Este primer paso le proporcionó a JBS la seguridad para explorar países más lejanos. En la actualidad, JBS cuenta con presencia en cinco continentes con instalaciones de producción en Brasil, Argentina, Italia, Australia, Estados Unidos, Uruguay, Paraguay, México, China, Rusia, entre otros.

Palabras clave

Proceso de Internacionalización, Modelo Uppsala, Teoría Institucional, instalaciones de producción, ventajas de ubicación, valores culturales, legitimidad, fusiones y adquisiciones.

Introduction

JBS started as a small slaughterhouse killing about five animals a day, today, it is one of the biggest beef companies in its industry (The Economist, 2011). JBS is a huge multinational that due to its fast expansionist process is loved and at the same time hated by many.

This paper describes the international process of JBS a Brazilian Multinational (initials of its founder Jose Batista Sobrinho), which ever since its creation in 2005, has expanded itself to such form that it is now present in five continents with production facilities in Brazil, Argentina, Italy, Australia, United States, Uruguay, Paraguay, Mexico, China, Russia, among others (Torres, 2011). It is a company in the food sector and over the past few years has tried to expand its product lines by acquiring companies from various regions. Responsible for over 120,000 employments, JBS has become an important participant in the economy of many of the countries where it now has presence (JBS, 2012).

The history of the company goes back to a man named Jose Batista Sobrinho in Brazil who began his operations in 1953 slaughtering about five animals a day. In 1970 it acquired its first slaughterhouse with the number of animals sacrificed rising to 500 per day (Torres, 2011). Finally, in 2004, it acquired 50 percent of *Alimentos BF* and that's how JBS came to be in 2005 (*Idem*). As it can be observed, the company has an expansionist mentality and through large investments, mergers and acquisitions, it has grown to what it is today. It has taken advantage of facilities in different countries having production facilities in over nine countries (Velandia, 2009). It can be observed that the firm chose to expand both horizontally and vertically, the latter consisting in the engagement of new activities through mergers and acquisitions, and the former by launching new product lines like JBS accomplished with the pork and dairy lines.

Established in 2005, JBS went on to acquire its first company in Argentina, just one year later the company was created (Torres, 2011). It is interesting to analyze this first interaction abroad because a process that sometimes takes years for companies to do, JBS accomplished it in less than a year. For this paper, a case study was the chosen methodology to present the different internationalization processes carried out by the company, which will be analyzed along with the different barriers that took place during these processes, the reasoning behind the countries chosen for production facilities, as well as the theories that apply to the internationalization process of JBS; both economical and cultural aspects involved are also taken into account.

Both quantitative and qualitative data is presented in order to build a reliable and strong case study. Valid research mechanisms are used for the creation of the case involving the analysis of theories from Forsgren (2005), Ietto- Guilles (2007), and Johanson and Vahlne (1975, 1977); using reliable sources will give the reader confidence in all data presented.

Literature review

JBS has undergone an internationalization process unlike any other. Most Brazilian companies in the beef industry are very poorly consolidated or tend to be more family oriented and mainly reserved for local consumption (The Economist, 2009). JBS has gone outside the box, having carried out a shopping spree ever since its creation in 2005 (The Economist, 2009). An important factor of its success has been the fact that JBS has had an understanding of its goal and its expansion mentality.

JBS clearly follows the establishment chain mentioned in the Uppsala model (Johanson, 1977) as it first exports via agents in Brazil to the point it was able to acquire 21 plants in Brazil and 5 plants in Argentina which meant a slaughter capacity of approximately 22,000 cattle in contrast to 500 cattle in 1970 (Torres, 2011); JBS then sets up sales subsidiaries along with production facilities abroad. What perhaps may be seen in the case of this company is that the amount of time it exported via agents was limited due to its expansionist mentality and until this day, the main focus has been setting up production facilities abroad in order to benefit from location advantages and lower costs. Its first acquisition took place with Argentina when it acquired Swift Argentina (Torres, 2011). Sharing a mutual border and being the second largest land mass processing region in Latin America made Argentina the most appealing market for Brazil. This first move then gave JBS the confidence to move into subsequent areas, however, making the first international move to a market relatively close and similar culture- wise made the internationalization process easier, more effective and cheaper due to the lower transportation costs.

JBS is a big company and even though it is believed that the bigger the company, the easier it is to internationalize it, this concept needs to change because the bigger the company, the more obstacles and responsibilities there are towards society (Ietto- Guilles, 2005). JBS, being the massive international company it is, has faced many barriers, not only in regards to economic issues but also cultural ones. JBS tried to acquire an American Beef company in the United States called the Kansas Based National Beef and a subsequent lawsuit was placed by the American government for anti-competitive issues (Porter, 2008). It is of no surprise that the American beef industry was nervous of this new acquisition which meant that the beef industry in the United States would be controlled by a foreigner (*Idem*) and no country desires this, especially not a strong economic power like the United States, yet knowing the economic problems that the United States has faced in the recent years and the closing of many companies within its borders, perhaps it was time for the United States to put all its pride aside.

Multinational enterprises need to understand that more than a business actor, they are also a political one (Fosgren, 2008). Every company needs to have a clear and perfect understanding of its environments and each subsidiary needs to have legitimacy: be perceived by society as an honest, respectful, and successful company (*Idem*). According to Hymer (1976), it is important to understand that different borders also mean different legal systems and cultural values; enterprises must adapt to these norms and values. This was what happened to JBS in 2008 with the case of 100 Muslim workers fired who complained the company did not grant them a break during the same time as the Ramadan's praying hours leading up to a lawsuit against the company (Candela, 2007). It is crucial for multinationals to understand that not only their norms should be followed and respected, but also those of individuals involved in the company, otherwise the company will begin to lose legitimacy just as mentioned by the Institutional theory (Fosgren, 2008).

Findings and analysis

In the following figures, data will be presented in order to analyze the income per subsidiaries in each country, how much of this income comes from the national market or exports, and the major export destinations of JBS, followed by a table where the different internationalization processes are presented starting from its creation in 2005 (JBS , 2012).

INCOME PER SUBSIDIARY (2009)	INCOME FROM EXPORTS VS. INCOME FROM NATIONAL MARKET (2009)	EXPORT DESTINATIONS (2009)
43% USA (beef)		27% Russia
22% Brazil (beef)	64 % Home Market	23% Japan
14% USA (pork)	36% Exports	15% Mexico, USA
13% Australia (beef)		8% Canada
5% Italy (beef)		6% South Korea and China
3% Argentina (beef)		

Data from: (Velandia, 2009)

Internationalization pattern

YEAR	TYPE OF INVESTMENT	NAME OF THE COMPANY	COUNTRY	ADDITIONAL INFO
2005	Acquisition	Swift Armour	Argentina	Financed by the BNDES bank
2006	Acquisition	Additional beef processing plants	Argentina and Brazil	Total of 21 plants in Brazil and 5 in Argentina
2007	Entered Stock	Initial public offering in Brazilian Stock Exchange		Gained $ 800 million USD.
	Acquisition	Swift	United States and Australia	Cost of $ 1.459 million USD
2008	Acquisition (50%)	Inalca	Italy	Cost of $ 225 million Euros
	Acquisition	Tasman Group	Australia	Cost of $150 million USD Now owner of 150 production facilities in Australia
2009	Reopening	Reopened 5 beef packing centers		
	Acquisition	Pilgrim's Pride	United States	Cost of $ 800 million USD

Data Sources: (JBS, 2012; Morgan, 2006; Torres, 2011)

This company has enjoyed tremendous success thanks to its strong process of internationalization, in other words, the expansionist policy it has employed. The internationalization process started with the acquisition of Swift Argentina in 2005 (Torres, 2011), with a second acquisition of Swift and Company in the United States and Australia in 2007 (Ramsey, 2010) which allowed the company to expand its product lines from beef to pork, also contributing to its increased market. As illustrated above, the U.S market was the target behind the creation of this new product lines which became a destination for 15 percent of JBS exports, where the greatest volume income was acquired (Morgan, 2006).

Having obtained a licensing agreement, the company gained the right to use the SWIFT brand name throughout the world (Torres, 2011), but the company did not stop there and continued on increasing its portfolio and its products (*Idem*). In 2009, the company purchased Pilgrim's Pride, an significant move, because it was the gateway for the company to enter the poultry industry, followed by an entry in the dairy industry (*Idem*).

During the new product stage it can be seen that local production in Brazil was intense, as a matter of fact before JBS was created, Mr. Jose Batista focused on local production, starting in 1953. (Torres, 2011) It is at this point that the home market is the main focus and high tech products are required which is why in 1968 this man goes on to acquiring his first slaughter house (*Idem*). It was during the following mature product stage that demand starts increasing and what now becomes important are production costs over product characteristics, which is where we see that production shifts abroad to advanced countries, and it is during this stage where the production facilities are the main focus; production facilities are then established abroad which is what happened when JBS acquired facilities abroad in Argentina, Panama, and United States (*Idem*). By 2007, 2 years after its creation, there were over 21 plants in Brazil and Argentina alone, economies of scale became an important issue (*Idem*).

Finally, in the last stage where the product has become standardized and there is competition of similar products in home and foreign countries, what becomes important is saving costs and innovating in order to be competitive (Ietto- Guilles, 2005). It is here that JBS moves into less developed countries where labor is cheaper (such as China) and innovation takes place, with JBS starting to expand its product lines from meats to pork, poultry, and even dairy products. Cost reduction is more important in this phase yet innovation is also of great importance in order to overcome this last stage and still be competitive in the market. JBS became a big exporter, exporting to markets such as Russia (27 percent), Japan (23 percent), United States (15 percent), Mexico (15 percent), Canada (8 percent), and finally the Asian market with six percent of total exports to that region as seen in Figure 3. Nevertheless, 64 percent of income comes from the national market of subsidiaries, while 36 percent from exports; therefore, one can conclude from these results that strategically located production facilities have been a forte in the internationalization strategy (Figure 2) (Morgan, 2006).

Conclusions

JBS has acquired an ability to expand that has been respected and like in the case of the United States Kansas Beef company, also frowned upon by many. Through mergers and acquisitions, and an enormous debt, it has increased astoundingly even since its creation in 2005. JBS has encountered many obstacles in its internationalization process yet it has managed to overcome and learn from them. It is a company that has understood its market and has been able to recognize strategic locations for its facilities. It is a company that more than a business actor, is also like a political one, and it is because of this that JBS has had to maintain a strong and up to date social responsibility in order to sustain its legitimacy and trust, otherwise it will encounter more problems like the Muslim case. For JBS it is of great importance to have legitimate and reliable supply chains. Also, JBS is constantly trying to meet the appropriate standards regarding quality control throughout their production process no matter the location (Torres, 2011).

Social responsibility is of great importance to JBS and is important that this is taken into account especially when talking in regards to the biggest beef producer in the world (Faleiros, 2010). It is imperative to realize that JBS is like a political actor and has many ways of being influential, which is why it is essential to maintain legitimacy and follow the norms in each given region in order to be accepted. Also, with its innovative and expansionist vision, it has known just what to do at every stage of their product, whether it is innovating, opening more production facilities abroad, expanding its product line, etc. JBS has played its cards very well and that’s why it is what it is today.

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