FSA and CSA in Multinationals of Emerging Countries:

Grupo Nutresa Case

Track: Strategies for Global Competitiveness

Key words: Multilatina, Grupo Nutresa, internationalization, *Firm-Specific Advantages* (FSA), *Country-Specific Advantages* (CSA).

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Abstract

Grupo Nutresa is the largest food company in Colombia and the country´s most important Multilatina. This preliminary research, based on the theory of internationalization and business groups, aims to define the *Firm-Specific Advantages* (FSA) and the *Country-Specific Advantages* (CSA) that enabled the successful process of internationalization of the Group. As a result, it was found that the strength of its brands and its distribution network as FSAs were those factors that made it possible for the company to become a successful Multilatina.

Key words

Multilatina, Grupo Nutresa, internationalization, *Firm-Specific Advantages* (FSA), *Country-Specific Advantages* (CSA).

Introduction

Inasmuch as the economies of developing and transitional countries have opened up to the global economy in recent years, several local firms have not only survived the battle in their home markets, but also have expanded internationally through exports and foreign direct investment to become multinational companies for their own benefit (Ramamurti, 2009). A multinational company is the company that engages through foreign direct investment, and additionally controls or owns value-added activities in more than one country (Dunning & Lundan, 2008).

Traditionally, these multinationals came from developed countries. By the eighties (1980), the first recognition of the existence of multinational companies in emerging markets were generated (Wells, 1983) as cited in Cuervo-Cazurra and Ramamurti (2014). The above has been framed in a change in trade flows that went from north-south to south-south, and in the fact that countries such as China and South Africa sustain their growth in the knowledge of the needs of emerging countries (Sauvant, 2008).

These types of countries are increasingly important to the economy and finance, as they are marketing and investing in each other and expanding into other emerging countries in Latin America, into the Middle East, Asia or Africa, without having The US or Europe disappeared from their radars (Santiso, 2013). Companies from emerging countries that are internationalizing count on competitive and innovative products and services as they are flexible and adapt to the needs of each market.

In the late 20th century and early 21st, Latin America showed dynamics of economic growth and international expansion, since as a result of the financial crisis of 2008 that took place in the OECD countries. Emerging markets acted as a bloc with larger movements of foreign investment and marketing among them. Argentina was the pioneer country in the internationalization of its companies, followed by Mexico and Brazil, conquering new markets, many of them in Latin America (Santiso, 2013).

The Latin America region received 85 trillion dollars of foreign investment in 2001, that is, 13% less than it was in 1999, mostly due to reduced investments by the telecommunications industry, particularly in Brazil and Argentina. Argentina had a shareholding from foreign firms of 34% in 1990 and grew to 68% in 2000, falling to 30% in 2001 because of the recession, which added up to the low market liquidity and currency devaluation, making export-oriented companies and those with an international expansion capacity more attractive. One of the outstanding examples is Grupo Techint (Tenaris), which had a significant growth of operations in South America during the 1990s. Mexico, by the early 21st century, stood out as a major foreign investor with movements of $3.7 trillion dollars in 2001, expanding into the United States with acquisitions such as those carried out by Grupo Bimbo with the US company Orowit of the food industry in January 2002 for $610 million dollars (UNCTAD, 2012).

In the context of economic strength in the region, Multilatinas appear as a special group of multinationals from emerging countries. These type of enterprises, according to Crow-Cazurra (2010), is defined as "companies originating in economies in the American continent which were colonized by Spain, Portugal or France, and have added-value operations outside their country of origin." *America Economia magazine*, a leader in business and economics issues for decision makers in Latin America, performs the ranking of Multilatinas since 2006. It defines as companies from Latin America with sales over $250 million annually and with relevant operations in at least two different countries different form that of origin, by evaluating 4 dimensions: sales abroad, employees abroad, geographical coverage and, expansion of liquidity, geographical and business expansion, and investment growth (America Economia, 2015). The Top 10 Multilatinas 2015 are shown in **Table 1**.

Table 1. Ranking Top 10 Multilatinas year 2015.

Position	Company	Sector	Country
1	Mexichem	Petrochemistry	Mexico
2	Cemex S.A.B. de C.V.	Non-metallic mineral products	Mexico
3	Latam (LAN / TAM)	Aviation	Chile
4	Grupo JBS SA	Food, beverages and tobacco	Brazil
5	AJE Group	Drinks and liquors	Peru
6	Tenaris	Metal and metal products	Argentina
7	Gruma	Food, beverages and tobacco	Mexico
8	Ternium SA	Metal and metal products	Argentina
9	Avianca / Taca	Aviation	Colombia
10	Gerdau	Metal and metal products	Brazil

Source: Own calculations based on the rankings of Multilatinas in http://www.americaeconomia.com/

Reviewing the ranking of the *America Economia magazine*, in the last 6 years we see that there were not any Colombian companies in 2008 on its list. Since 2009, the first to appear is *Grupo Nacional de Chocolates* (today *Grupo*

Nutresa), being the only Colombian company in the ranking of 2009 which has remained in the same position for each of the following years with steady growth in sales, as seen in **Table 2**.

Table 2. Colombian Companies in the Ranking Multilatinas.

Year	Company	Amount / Sector	Ranking	Sales (U$S MM)	% Sales abroad	# of countries	% Inter. Potential growth	# Ranking Countries
2009	GRUPO NAC. DE CHOCOLATES -	FOOD	54	$ 2,261.30	37.7	4	61	60
2010	GRUPO NAC. DE CHOCOLATES -	FOOD	22	$ 2,224.90	37.7	11	67	60
2010	AVIANCA - TACA	AIRLINES	31	$ 3,000.00	80	23	79.7	60
2011	GRUPO NAC. DE CHOCOLATES -	FOOD	18	$ 2,736.40	30.5	11	65	66
2011	AVIANCA - TACA	AIRLINES	15	$ 3,279.40	82	25	70	66
2012	ISA	ENERGY	18	$ 2,438.000	70	8	57	66
2012	AVIANCA – TACA	AIRLINES	21	$ 4,293.70	78	22	80	66
2012	GRUPO NAC. DE CHOCOLATES -	FOOD	22	$ 2,950.00	23	15	57	66
2012	GRUPO ARGOS	CEMENT	37	$ 323.50	52	3	79	66
2013	ISA	ENERGY	14	$ 1,872.70	62	5	84.1	80
2013	AVIANCA – TACA	AIRLINES	19	$ 4,609.60	79	22	73.5	80
2013	GRUPO NUTRESA	FOOD	34	$ 3,156.10	34.1	15	90.8	80
2013	GRUPO ARGOS	CEMENT	44	$ 2,583.40	45.1	7	68.4	80
2014	AVIANCA – TACA	AIRLINES	8 (9 IN 2015)	$ 4,702.00	49	22	75.7	100
2014	ISA	ENERGY	28 (26 IN 2015)	$ 1,628.00	54.6	7	73.1	100
2014	GRUPO NUTRESA	FOOD	41 (44 IN 2015)	$ 3,216.00	34.7	14	82.4	100
2014	GRUPO SURA	FINANCIAL	54 (24 IN 2015)	$5,519.10	30.2	8	91.1	100
2014	GRUPO ARGOS	CEMENT	62 (42 IN 2015)	$3,728.20	42.4	7	77.1	100
2014	GRUPO EPM	MULTISECTO	70 (65 IN 2015)	$ 4,862.70	33.5	8	89.6	100
2014	TERPEL	PETROL/GAS	74 (39 IN 2015)	$ 6,232.50	15.3	6	76.3	100
2014	COLOMBINA	FOOD	82 (76 IN 2015)	$ 726.00	33.5	12	64.9	100
2014	BANCOLOMBIA	FINANCIAL	93 (63 IN 2015)	$ 5,432.20	24.1	10	82.7	100

Source: Own calculations based on the rankings of Multilatinas in http://www.americaeconomia.com/

Several authors like Buckley and Casson (1976), Dunning (1981), Hennart (1982), Rugman (1981), as cited in Ramamurti (2009), base their explanations on multinationals from emerging countries in the traditional theory of internationalization that studies the interaction between the country-specific advantages (CSA) and the firm-specific advantages (FSA). Rugman (1981, 1996) - as cited in Ramamurti, 2009 - defines the FSA as a unique ability of an organization, which can be based on the product technology or processes, marketing or distribution skills, and defines the CSA as unique business factors in each country, which can be based on natural resources (minerals, energy, forests) or on the workforce and associated cultural factors. The modern theory adds that the FSA can be supplemented in the process of internationalization.

In line with the above, this preliminary investigation aims to determine the FSA and CSA that supported Grupo Nutresa in its internationalization process. The reference information has been extracted mainly from secondary sources that will be followed by a second phase of information gathered through interviews and surveys of primary sources. This exercise is valuable to the extent that other Colombian companies could recognize certain lessons, which applied to their efforts to venture into international markets, may lead them to successful processes, saving on certain resources.

This paper is organized as follows. After this introduction, the reference frame on the theory of internationalization based on Rugman's FSA-CSA matrix is exposed. The third section discusses the importance of *Grupo Empresarial Antioqueño (GEA)* in its relation to what today is *Grupo Nutresa*. The fourth section is a characterization of what the Group is as well as the leading brands that compose it. In the fifth section, its internationalization process and strategy is specified. The sixth section develops the application of the Rugman's matrix to *Grupo Nutresa*. The final section provides some concluding remarks and proposes some ideas for future research.

I. Reference framework

1. Internationalization theories focused on the country-specific advantages and firm-specific advantages

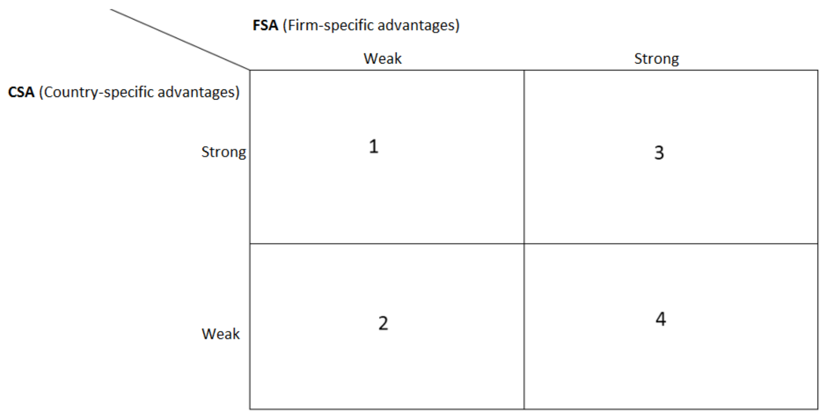
In order to explain the nature and activities of multinationals from emerging countries, in Chapter 4 of the book *Understanding Multinationals from Emerging Markets*, Rugman and Nguyen (2014) explore the theoretical foundations of the internationalization of business, considering aspects of the traditional theory of internationalization and what the modern theory has proposed in this same field.

In the traditional theory of internationalization the authors Buckley and Casson (1976), Dunning (1958, 1981), Hennart (1982), Rugman (1981) and Vernon (1966) -as cited in Cuervo-Cazurra and Ramamurti, 2014- base their explanations of the examination of the interaction between the CSA and the FSA. The eclectic paradigm OLI (Ownership-Location-Internalization) argues that the parent multinational firm will expand abroad through foreign direct investment based on three reasons (Dunning 1981, 1993): (1) search for markets, to ensure access to foreign markets, (2) the search for natural resources, to ensure access to minerals, oil, forests and others abroad and, (3) the search for efficiencies, to achieve lower labor costs. From this perspective, the subsidiaries operate in the host country as miniature replicas of the parent; that is, they could not develop new capabilities as their interactions with the host country's CSA are centralized and prioritized by the strategic decisions taken by their parent company (Cuervo-Cazurra and Ramamurti, 2014).

For its part, the modern theory of internationalization has been developed by the authors Henart (2009), Rugman and Verbeke (1992, 2001) and which distinguishes between the FSAs that are developed in the place of origin and those acquired in the host country. Thus, the new theory of internationalization maintains that the FSA can be developed both at headquarters and in the subsidiary, and identifies three types of FSA: autonomy, routines and recombination of capabilities, the latter being the one that allows companies not only to recombine existing resources towards subsidiaries, but also to recombine them in a new way, including new resources and capabilities that have been developed by subsidiaries and complement them with other external resources that can be applied in the host country and even globally (Rugman and Nguyen, 2014).

The classic Rugman's matrix of CSA/FSA (see **Figure 1**) can be used to explain, predict or define the optimal organizational form for international operations of a multinational company.

Figure 1 Clasic Matrix CSA/FSA



Source: Rugman (2005) as cited in Sauvant, 2008.

In research conducted by Rugman, by applying the matrix CSA/FSA he has found that multinational companies characterized by a mixture of strong CSA and weak FSA (cell 1) are those based on natural resources or in a mature stage, internationally oriented to the production of goods such as raw materials; in contrast, when there is a mixture of strong FSA and weak CSA (cell 4), it gives evidence of a well differentiated multinational with a high marketing level, personalization and strong brands, where the factors of CSA are not essential for internationalization [Katkalo and Medvedev (2013) as cited in Williamson, Ramamurti, Fleury, & Fleury (2013)]. A company with strong CSA and FSA (cell 3) indicates that it has both ease of resources and strengths as far as their areas of production and marketing, so it can benefit from both low-cost strategies and differentiation; while a company with weak CSA and FSA (cell 2) probably represents a local small or medium business with little exposure to international trade, which must necessarily be restructured or it will move out of the market (Rugman, 2005).

2. Country-Specific Advantages and Firm-Specific Advantages in Literature

The literature on multinationals from emerging countries suggests that they bring their advantages more from the CSA for economies of scale than from the FSA as technology. However, it is demonstrated that not all multinationals from emerging countries can be leveraged in the CSA in the same way. Although, those multinationals take more advantage of the CSAs than the multinationals from developed countries. When they acquire skills, they increasingly consolidate their advantage over domestic competitors and with internationalization they manage to increase their FSA. Thus, the ability to upgrade is a key element to be a multinational (Baumil, Driffield, & Zhou, 2016).

Meanwhile, the importance of the factors in the country (CSA) is presented as indisputable because the classical economic theory justifies international trade by the existence of absolute or comparative advantages or by the unequal basis of factors among countries. In recent literature, different factors - as Dunning calls them- of location advantages are listed, including the following: infrastructure support, the role of institutions, macroeconomic policy, human capital, capital flows, exchange rates, market size, technology and labor costs (Ramirez & Fleta, 2016). In the revision of literature on CSA, Zhang (2016) concludes that the role of countries cannot be ignored in the international business environment and, although the literature on CSA is not fully mature, it has become important and more research can be done on how to take advantage of those CSA in order to achieve a dominant position in international competition.

This is complemented by the research carried out by Ramirez & Fleta (2016) regarding the importance of the location of production factors and the degree of development of the country (CSA), which concludes that the location of the factors influences to attraction of foreign investment, although some companies may ignore macroeconomic issues based solely on the expectation of improving their competitiveness by relocating their production where there are lower costs. As for the size of the market, their research results indicate that small markets are attractive because they can access more regions through bilateral agreements, the latter aligned with what Rugman (2005) showed in the sense that multinationals are actually regional.

Whereas environmental factors on the parameters related to CSA are important for globalization, along with the responsibility of multinationals that have access to supplementary environmental assets in the host country, the approach of Hillemann & Gestrin (2016) suggests the following modifications to the Rugman's matrix: (i) that complementary assets and resources available in the host country are included in CSA, and (ii) that strengths and weaknesses are replaced by efficiency or inefficiency in the markets. So, cell 1 implies efficient external markets, which may encourage internationalization with decisions on natural resources or production costs. Cell 2 involves inefficient foreign markets, which may motivate strategic alliances. Cell 3 implies efficient markets and may motivate internationalization through contractual agreements (over-the-counter share mode). Cell 4 implies inefficient markets and allows the leveraging of FSA through licensing or contractual arrangements.

Reassessing the competitive advantages of multinationals from emerging countries, it is shown that they must see beyond the traditional definitions of advantages, including the following: differentiated capabilities of reinventing existing products, processes and business models; the ability to develop a deep insight of customers from emerging markets and the use of them to develop products and services that meet their needs at the right price; the ability to hire profitable people with relevant skills and to train and motivate them; and the optimization of processes to adapt to local availability. Similarly, multinationals must also see the role of internationalization as a means to access new location advantages and not necessarily to exploit their existing advantages, which defines what markets to expand to and in what sequence; besides seeing mergers and acquisitions not only as a means of gaining market or economies, but also of accessing new knowledge and accelerating the way they can integrate the supply chain more efficiently (P. Williamson, 2015).

In line with this, Meyer (2004) suggests that entrepreneurship has been the main source of growth in emerging countries, which is a source of innovation, and concluded that successful companies or their managers previously had links with multinationals. And multinational companies create major changes in the countries where they arrive; thereby, through knowledge, a first stage is given to adapt new technologies in a local market and then it tries to imitate. Then, through the training given to employees, human capital is built and, with its exposure to modern forms of organization, quality and international standards, they move to local firms or entrepreneurships where they replicate what they learned and thus they are improving the CSA or FSA of local businesses.

Finally, analyzing the models of management and internationalization strategies of multinationals from emerging countries, a path of evolution in these multinationals is evidenced, where they begin as local optimizers depending on the relationship with the global network of production, on the effect of country of origin (CSA), on the efficiency in the design and implementation of their international networks (FSA), and they may adopt other generic strategies that suit the international expansion (Fleury, Shi, Leme, Ferreira, Cordeiro, & Liang, 2015).

3. Advantages of Business Groups

Most multinationals from emerging countries are affiliated with business groups (UNCTAD, 2012) and their competitive advantage arises from the interaction and response to specific characteristics of the country (CSA) due to imperfections in capital, labor or product markets, and the recombination of capabilities to affiliate firms, supported by the knowledge acquired over time (FSA).

Business groups develop advantages based on their organization and transactions. The advantages of the business groups are identified from the explanation of exogenous forces, that is, by conditions that create advantages of supply and demand by institutional gaps, policies or culture, asymmetry in investment and foreign trade and by the explanation of endogenous forces such as the organization of resources and capabilities within the group.

The advantage of business groups lies in the innovation to meet the conditions posed by exogenous and endogenous forces and the competitive advantage and persistence of business groups, in national and international markets, depends on the dynamics and functioning of the domestic market of the group (Bugador, 2015).

The competitive advantages of the business groups are present in each of the member companies comprising it. Examples of these advantages are:

1. They reduce transaction costs through capital, labor, purchases or sales processes and the search for information.
2. They transfer the experience and management skills with geographic and product diversity, connection and brokering capabilities and relations with the State.
3. They achieve economies of scale and scope in the allocation and joint development of resources in areas of Research and Development, Technology, Marketing and Distribution with the reputation of the group brand.
4. They have access to good source of capitalization. They have the financial resources of the business group to carry out their foreign investment and expansion processes, which gives them the ability to have multiple portfolios and, with the good reputation of the group, to access different businesses.

In the case of Colombia, in the Ranking of Multilatinas in **Table 2**, we find companies such as *Grupo Argos*, *Grupo Sura*, *Grupo EPM* and *Bancolombia*, which are part of Business Groups, and of course *Nutresa* as part of *Grupo Empresarial Antioqueño* (GEA). This is in line with UNCTAD statistics on affiliation of multinationals from emerging countries to business groups. It has been confirmed that group strategy allows organization and transactions management that supports the process of internationalization.

Amsden & Hikino (1994) as cited in Bugador (2015) argue that the pattern of input of the business groups' companies is repeatedly given the ability to contact with the State and multinationals abroad, followed by the capabilities of project implementation, which is unique to the business groups thanks to the fact that experience and routines are embedded in the owners and managers of the organization.

II. Relationship between Grupo Nutresa and Grupo Empresarial Antioqueño

As mentioned in the previous section, in most multinationals from emerging countries and *multilatinas*, business groups are the most widespread and dominant organizational form because it provides benefits like increased support for internationalization processes and a wide network of connections with the government, banks, and other institutions, which makes it appropriate to consider its context (Khanna and Rivkin, 2001 as cited in Cuervo-Cazurra and Ramamurti, 2014).

As examples of the formation of business groups and their importance in the internationalization of companies, the following are explained in the literature, among others: Siam Cement Group SCG from Thailand (Ramamurti, 2009), *Grupo Carso* under the leadership of its president Carlos Slim in Mexico (Casanova, 2009), the international growth of the company *Grupo Modelo* linked to *Grupo Tresalia* (Guillen & Garcia-Canal, 2012), *Grupo Techint* in Argentina and *JBS Friboi* from Brazil, the latter belonging to the food industry (Santiso, 2013).

Grupo Empresarial Antioqueño (GEA) is a conglomerate of companies that emerged in the Antiochian region of Colombia, which through equity castling[1] involves companies from the following sectors: food, being *Grupo Nutresa* the

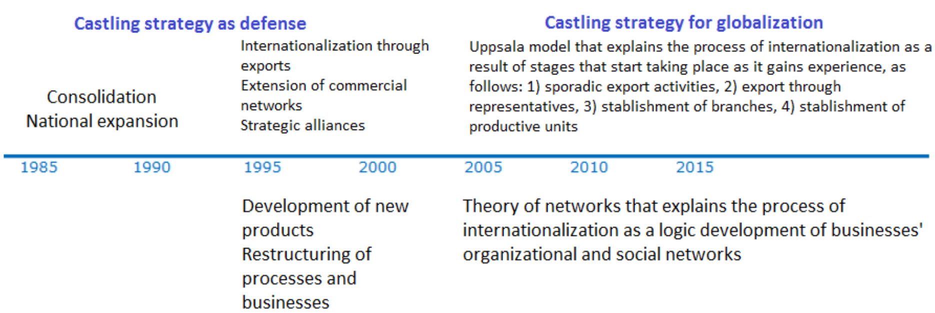
[1] Equity castling consists of establishing complex interrelationships among different companies through cross shareholding, to join forces in pursuit of higher productivity and protection for the related companies.

representative company; financial, with *Suramericana* as a leader company; and cement, where *Argos* is the flagship firm. It represented approximately more than 5% of Colombian GDP for the first half of 2014 and its results have allowed the accumulation of advantages for the companies in the group (Dinero magazine, 2014). Therefore, the relationship of GEA and *Grupo Nutresa* is explained below as well as the advantages brought to the latter in its internationalization process.

In 1978 it joined *Grupo Empresarial Antioqueño* (GEA) that emerged in that year, as a result of a meeting motivated by Santiago Mejia Olarte and Ricardo Angel Villa, which was attended by twelve prominent industrialists of the Antiochian companies who saw with concern the hostile takeover, carried out by Carlos Ardila Lülle, of companies Postobón from *Gaseosas Lux* and *Coltejer*. GEA, although was not legally constituted, functions as such in practice and is composed of a group of companies from various economic sectors. This group configuration was facilitated because, before the formation of the GEA, horizontal and vertical integration already existed with several companies that are part of the group, generating bonds and cross shareholding of companies (Londoño, 2004).

Between 1985 and 1990, the strategy of GEA (see **Figure 2**) was that of its consolidation through national expansion. Between 1995 and 2000, it was a strategy of internationalization through exports, commercial networks expansions, strategic alliances, development of new products, restructuring of businesses and processes. And since 2000, it reconsidered its initial castling strategy made to defend itself, to use it now in its process of globalization (Londoño, 2004).

Figure 2 GEA's Strategy



Source: Own creation with information from Londoño (2004).

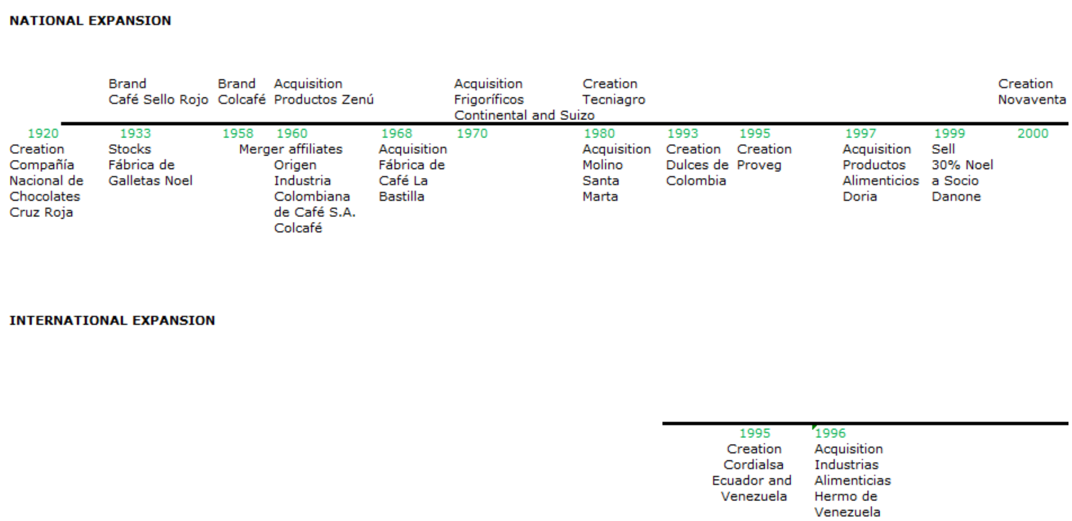
In its process of consolidation nationwide, GEA was strengthened with the operation of its businesses of chocolates, coffee, flour, and refrigerators achieving the positioning of its brands in Colombia. Analyzing the process of internationalization of the group, Londoño (2004) shows that the Uppsala model and network theory are applied. The Uppsala model explains the process of internationalization as a result of stages that are taking place to the extent that companies gain more experience. In this way, the GEA began with sporadic export activities and then made agreements with companies abroad to bring its products to international markets to further establish branches and production units. Also, the network theory is applied to the extent that internationalization also occurred as a logical development of organizational and social networks of the group companies in different locations.

For *Grupo Nutresa*, being part of the GEA has brought advantages such as the ability to generate appropriate and flexible solutions in the various businesses and markets, for instance, maintaining the local brands acquired in order to create in this way a powerful network of international logistics and distribution. Moreover, there is ease of access to capital for its internationalization thanks to the growth and profitability of the assets of GEA (Dinero magazine, 2014), within which the flexibility to access capital is highlighted by its linking to *Grupo Suramericana* where *Bancolombia* is an affiliate, which is the largest private bank in Colombia by the size of its equity and assets (GrupoSura, 2016).

III. The Multilatina Grupo Nutresa

Grupo Nutresa is recognized as a *Multilatina* that has developed an important internationalization process. Since its creation, this company had moments of expansion nationwide in Colombia, and gained experience in local mergers and acquisitions. By 2015, the company accounted for 61.1% of market share in the country. Between 1990 and 1995, it established agreements with companies that allowed the arrival of its products to international markets and started its international expansion in the nineties with operations in Ecuador and Venezuela (see **Figure 3a**).

Figure 3a Expansion Time Line Grupo Nutresa 1920-2000



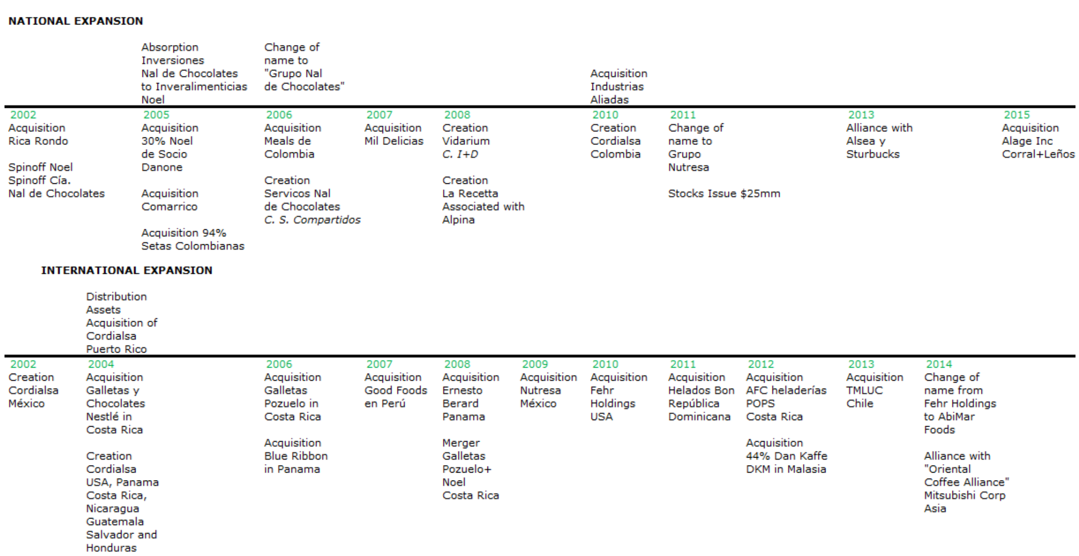
Source: Own creation with information from http://www.gruponutresa.com/historia/

For 2000, it began to take shape to be a *Multilatina* bringing its operation to 12 countries, with subsidiaries and exports to 70 destinations. In 2004 it acquired Nestle's plants of cookies and chocolates in Costa Rica, to form *Compañía Nacional de Chocolates* and *Compañía de Galletas Noel* in Costa Rica, which served as a platform for the development of its business in the Central American region. In 2007, the company acquired the Peruvian company Good Foods S.A. and its subsidiaries, complementing its operation regarding trademarks, products, distribution and manufacturing for the chocolate business. Between 2000 and 2009, the company grew through acquisitions; sales increased from US$45MM to $700MM and the number of employees abroad grew from 400 to over 5600.

In March 2009, it acquired the Mexican company *Nutresa*, dedicated to the production and marketing of chocolate candies (Semana magazine, 2010). Thus, it has its own production platforms in Mexico, Costa Rica, Peru and Colombia, and the distribution network *Cordialsa* that operates in Colombia, Ecuador, Venezuela, Puerto Rico and the United States (see **Figure 3b**). In 2011, it had 8 production plants in 6 countries: Colombia, Costa Rica, Mexico, Panama, Peru and Venezuela (Santiso, 2013) and in the same year *Grupo Nacional de Chocolates S.A.* in Colombia changed its name for *Grupo Nutresa S.A.*, thus representing all categories of food and group companies and the link of its brands with nutrition. In 2012, *Nutresa* through *Colcafé* acquired 44% of the shares of DKM, one of the largest producers of soluble coffee and coffee extracts in Malaysia. By 2013, it acquired *Tresmontes Lucchetti* in Chile, which also had a strong presence in Mexico.

By 2014, it opened the doors of Starbucks in Colombia through an alliance with it and Alsea, and created the Oriental Coffee Alliance OCA, a joint-venture[2] with Mitsubisi Corporation for the marketing of coffee products in Asia. In 2015, it bought the shares of Aldage Inc. owner of the brands *El Corral* and *Leños* in Colombia, besides continuing with the commissioning of new plants and including in its strategy of 2020 to double sales by 2013 with EBITDA profit margins of 12% to 14% (Nutresa, 2016).

Figure 3b Time Line Expansion of Grupo Nutresa 2001-2015



Source: Own calculations based on the information in http://www.gruponutresa.com/historia/

As shown in Figures 3a and 3b, *Grupo Nutresa* has achieved its international expansion with the creation of three companies, an alliance and fourteen mergers and acquisitions. The latter is the preferred entry method, since it is a mechanism that allows the Group to reach directly to distribution channels that are already established in the different countries (RevistaZonaLogística, 2013). By contrast, Greenfield operations involve a way to build channels, which is

2 "The expression Joint-Venture comes from Joint Adventure which originated in the legal relations of the late nineteenth century called "partnership", which in Spanish means "divide" or "share" and which indicates the relationship between two or more persons pursuit of a common business." (Barbosa Castaño, 2004)

complex and expensive. Having a previously established channel of distribution enables the optimization of handling of food. The F&A are a good way to host the culture and tastes of each country and facilitate the positioning of the brand. In **Figure 4**, the entire process of international expansion of *Grupo Nutresa* and the entry mode into countries is displayed.

Figure 4 International Extension Map of Grupo Nutresa 1995-2015

Source: Own calculations based on the information in http://www.gruponutresa.com/historia/

From above it can be said that, within the main strengths of *Grupo Nutresa* are trademarks and distribution (see **Figure 5a** and **5b**). The brands are leaders, recognized, loved and part of the everyday life of people, supported in nutritional and reliable products and with an fair price/value relation. The distribution network provides an offer differentiated by channels and segments and with specialized attention teams (its salespeople) that allows them to serve about a million customers in the region (Nutresa, 2015).

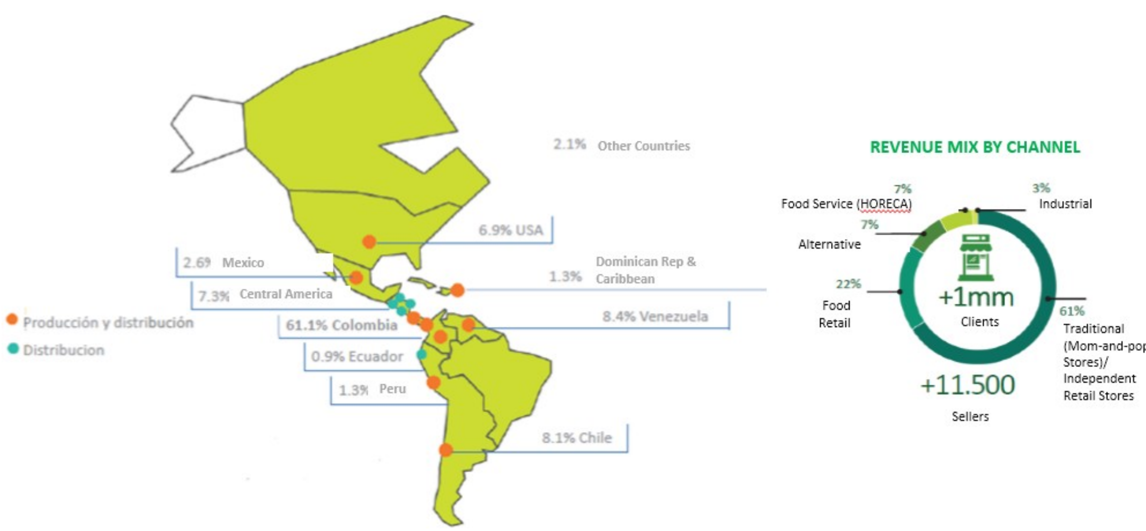
An example of the above and of the appreciation for the prioritization of the value of brands in their internationalization process is the ice cream brand POPS originated in Costa Rica in 1968, loved and recognized for being the first to deliver a Premium quality product which spread throughout the Central American market. It is a leading brand in the ice cream market with an image defined by cleanliness, comfort, good service and high quality. In addition, it set up a distribution network with own vehicles with freezers, to preserve the quality of its products, which is in line with the objective of *Nutresa* (POPS, 2016).

Figure 5a Companies and Brands of Grupo Nutresa

Source: http://www.gruponutresa.com/estructura-del-grupo/

In order to cater to all consumers, *Nutresa* has a strong distribution network located in 15 countries (Malaysia, United States, Mexico, Colombia, Equator, Peru, Venezuela, Chile, Dominican Republic and others in the Caribbean), which starts from a demand analysis to optimize the location of plants and the supply infrastructure that includes warehouses and vehicles, and to determine the size and location of distribution centers, comprising the delivering to traditional channels such as neighborhood stores and self-services, supermarket chains, as well as direct, industrial and institutional salespeople. It is highlighted that within the distribution infrastructure it is coordinated internationally mainly by the company *Cordialsa* (Ecuador, Venezuela and the United States) and it is complemented through outsourcing with distribution companies where required to deliver products in supermarkets and shops.

Figure 5b Distribution Network of Grupo Nutresa



Source: Nutresa Corporate Presentation 2013

As for the financial management, Grupo Nutresa has a conservative strategy and follows the guidelines presented by the companies of GEA, that is, it is registered in the Colombian Stock Exchange and has access to the capital market through equity trading, as a complementary resource to the equity of its own flows and debt to leverage its growth strategies. In the process of internationalization of *Nutresa*, the stock market capitalization helped finance its mergers and acquisitions. At the end of 2015, its shareholder base consists of *Sura* (a GEA company with 35.5%), *Grupo Argos* (a GEA company with 9.8%), Colombian Funds (15.5%) and other shareholders (32.3%) with a total of 460,123,458 ordinary shares which by May 2016 have a AAA rating and are traded on the stock exchange at a price that is around $ 25,800 per share (Fitchratings, 2016).

IV. Process of Internationalization of Grupo Nutresa

The corporate structure creates bases of support for the process of internationalization, as follows:

- Presidency: in order to ensure the capabilities of the Organization, and direct the decisions that enable to achieve the Mega 2020.
- Vice-presidency of Corporate Finance: for the group's growth through support to investment plans of the various Business.
- Commercial management: in Colombia with Commercial Nutresa (dry), Business Meat (frozen and refrigerated), *Novaventa* and *La Recetta* (alternative sales channels) and abroad, with its own exclusive distribution companies.
- Administrative Services: for all the Group companies by *Servicios Nutresa*, responsible for providing solutions regarding procurement, infrastructure, finance, audit, legal assistance, risk and security, human development and communications (Nutresa, 2015).

According to the statement by Carlos Ignacio Gallego president of *Compañía Nacional de Chocolates*, *Grupo Nutresa* has addressed the internationalization to expand markets in the strategic region and diversification of destinations, the internationalization model used is a proprietary model based on having autonomy with strategic coherence, that is, on building plans jointly in all regions where the Group is present but allowing that plan to run autonomously and with a joint monitoring and verification. The model allows learning in all places where it has a presence and, in its internationalization strategy, ownership of international distribution, brand creation and acquisitions of production platforms are key (Zona Logística magazine, 2013).

The internationalization model starts from some transverse advantages or differentiating aspects in its business model which are:

- People: a participatory environment is valued and promoted for the development of skills, and employees manage the "Multilatina Work Agenda" to plan, analyze and identify gaps in each country.

- Brands: they are leaders in the markets, recognized and trusted, are integrated into the daily life of the people, and are based on nutritious and reliable products and search a good price/value relation. As a strategy to strengthen brands, through partnerships *Nutresa* owns 30% of *Andina Estrella S.A.S*, an operator from the chain Starbucks in Colombia and 50% of Oriental Coffee Alliance Sdn. Bhd in Asia.
- The distribution network: it is wide and the company Cordialsa, which is part of Grupo Nutresa, stands out internationally; it handles traditional channels (shops, self-services) and supermarket chains that account for 83% of its sales, but also exclusive channels (industrial, institutional and sellers), segments and specialized attention teams, allowing customer proximity and products available. As strategies to strengthen its distribution network through alliances, Nutresa owns 40% of *Bimbo de Colombia S.A*., 70% of *La Recetta* and 37% of the Malaysian company Dan Kaffe.

The group sees free trade as something good, which makes Colombia generate conditions that allow to compete equally against any other international body and, internally, Nutresa identifies which fronts of free trade agreements have strengths or weaknesses to improve competitiveness and productivity, although they generally bring good opportunities for finished products; they can also be found in terms of supply and technologies which can make them more competitive (Zona Logística magazine, 2013).

The path of internationalization they have taken has allowed them to evolve (see **Figure 6**) from the stage of exports to alliances with local players, then the construction of their own distributors, to subsequently have productive platforms. In this process, the role of logistics has been crucial throughout the supply chain and a cost competitiveness factor.

Figure 6 Evolution of the internationalization process Grupo Nutresa

Source: Corporate Presentation Nutresa 2013

Mergers and acquisitions are motivated in internationalization to better understand the international consumer, exploit existing technology, and produce differentiation, trademarks, patents and managerial capacity (Williamson et al., 2013). As it has been pointed out before, in *Grupo Nutresa* this is the entry and expansion mode that is priorized both domestically and internationally. This strategy and its organizational culture have allowed it to have learning focused on the respect for the culture of the host country, which gives it the ability to create added value once the transaction has been carried out and integrate cultures, by appropriating market knowledge, the value of brands and the distribution networks that already exist in the merged or acquired company. An example of this is Tresmontes Lucchetti acquired in Chile, through which it accessed to market share in new categories such as instant cold drinks, juices, edible oils and tomato sauces, in addition to strengthening its international activity by the strength of *Tresmontes Lucchetti* in Mexico (PROCOLOMBIA, 2014).

V. Application of Rugman's matrix in Grupo Nutresa

Having reviewed the framework of the FSA and CSA both in theories of internationalization and in literature, in addition to the benefits generated by the business groups in the processes of internationalization and including the information gathered from secondary sources, the Rugman's matrix is applied in *Grupo Nutresa* (see **Figure 7**).

Figure 7 Matrix CSA/FSA with the factors in Grupo Nutresa

CSA (Country-Specific Advantages / **FSA** (Firm-Specific advantages)	Weak	Strong
Strong	Institutions and legal stability in Colombia Support from Fedesarrollo to analize competitiveness in the region Supplies availability Free Trade Agreements	Belonging to GEA. Value of its brand. Distribution channels network. Valuable knowledge on management, marketing, brands. Deep knowlwdge of the customer and markets "zeitgeist". Expertise in mergers and adquisitions. Conservative financial strategy. Authonomy, rutines and recombination of capabilities. Regionalization
Weak	Capital market	Investment in innovation. High commitment with the Principles of the UN Global Compact

Source: Own calculations based on the secondary sources consulted.

The considerations for the inclusion of elements of *Grupo Nutresa* in the matrix were as follows:

- Grupo Nutresa began its internationalization through export of surplus and then with alliances for the search for markets and ensuring access to foreign markets.
- The group is leading its investment depending on market development; it began contemplating the closeness or regionalization and facilities of free trade agreements with these countries.
- Nutresa's subsidiaries do not operate in the host country as miniature replicas of the parent company in Colombia.
- Managers in their process of internationalization adopt an attitude with a willingness to learn in all places where they have presence as well as to respect the cultures of the host countries, reviewing what the local actors for the development of talent do in each of the countries, which confirms that the FSAs can be acquired in the subsidiaries and that *Nutresa* has the advantages of autonomy, routines and recombination of capabilities.

- *Nutresa* senior managers have been exposed to an international education that has contributed in the process of strategic direction of the company.
- With Internationalization, they have managed to increase their FSA by expanding distribution networks and product portfolio.
- The budget allocation for innovation in products, processes and market development, as innovation is key within the strategic framework of *Nutresa.*
- *Nutresa,* as a result of being leveraged in the GEA, could take as advantages of the group the decrease of transaction costs in its procurement processes, research, contact and brokering skills, economies of scope, marketing and distribution with the brand reputation of the group, as well as the provision of financial resources for carrying out its foreign investment and expansion processes.
- *Nutresa* found institutions that allowed it to plan with scenarios of certain legal stability and a basic capital market to facilitate access to resources for its expansion.
- The participation of *Nutresa* in relation to sustainability and good governance.

The analysis of elements to be included in the matrix began with the revision of the CSAs, which in this case correspond to Colombia, identifying whether they are a strong or weak factor in the internationalization process. It was found that the institutions (for example: Fedesarrollo, *Procolombia*, etc.) and legal stability in the country represent a strength that is not related to an FSA of Nutresa, thus it is located in cell one. The same applies to the availability of free trade agreements and inputs (the country has diversity in natural resources and abundant raw materials for the food industry). In the process of internationalization, Nutresa goes to the capital market which is weak in Colombia and, as this is not the only source of funding for internationalization, is located in cell 2.

Having reviewed the CSAs, the analysis of FSAs evidenced in *Nutresa* was made. The first aspect corresponds to its linkage with the GEA which has reported profits and facilitated its internationalization process, a strength of both the organization and Colombia, given the prominent role of the GEA in the country. The same is true for the value of its brand and the distribution channels network, so these factors are located in the cell 3. As far as management staff, they count on valuable knowledge in management, marketing, branding, and in Colombia, the good quality of professionals is highlighted; this has enabled them to develop a deep insight into the customer and the markets, as Carlos Piedrahita call it, a 'zeitgeist", to be leaders in the market. They also developed a strong experience in mergers and acquisitions starting in Colombia; this coupled with a conservative financial strategy and regionalization, factors in which Colombia also has strengths, lead them to be located in cell 3.

Nutresa has stood out by investing in innovation, a high commitment to the principles of sustainability and good governance, the autonomy it gives to its subsidiaries abroad, adaptability of routines and recombination of capabilities generated in different countries, which gives strength to the organization, even though these are weak elements at the country level, thus these factors can be placed in cell 4.

In the theoretical reference of Rugman's Matrix for internationalization, most factors for *Grupo Nutresa* are located in cell 3; this position indicates that it is a company that can benefit from low-cost and differentiation strategies. This implies that it is a company that constantly evaluates its portfolio in order to adopt new lines, develop dynamic organizational capabilities and maintain an effective strategy that allows it to retain that position and to be able to add new FSAs through marketing, innovation and recombination of capabilities (Rugman, 2005). The quest of internationalization chosen by companies located in this cell comprises joint ventures and acquisitions, -what is in fact observed in Group-, which in Colombia began as an optimizer and gaining a significant size in the local market, and then creating its global network of production and distribution, implementing and adapting strategies of alliances, mergers and acquisitions for its international expansion, to develop into a Multilatina.

Concluding remarks

Grupo Nutresa is a leading company in Colombia with a market share of 61.1% for 2015, based on its brand and sales networks strategy, which are the basis of deep and integrated understanding of the market it serves, searching the generation of value to its final consumer. Possessing this size makes it easy to use all the levers of supply to have the lowest possible cost to bring the product from productive centers to distribution centers and, from there, to millions of customers; therefore, with the optimization obtained by the continuous improving processes and costs, it manages to consolidate its final customer loyalty.

As a result of being linked to the GEA, Nutresa gained experience in Colombia in terms of regional expansion as well as a growth process that allowed it to take basic elements for its internationalization. In its business development, it is proved what was expressed by Santiso (2013) about the changing pattern of trade flows that are now south-south among the countries of Latin America or Asia; in addition, it coincides with the explanation of Khanna, Rivkin and Cuervo-Cazurra (2014), that business groups are the most widespread organizational form in multinationals from emerging countries, and for *Grupo Nutresa* this has led to a reduction in transaction costs in its procurement processes, research, contact and brokering capabilities, economies of scope, marketing and distribution with the brand reputation of the group, as well as the ease of obtaining the financial resources required in the process of internationalization.

As regards FSAs, the strength of its brands and distribution skills dominates in *Grupo Nutresa*. The brands are leaders, recognized, loved and are part of the daily lives of people, supported by nutritious and reliable products with an excellent price/value relation. The distribution network is proprietary with a differentiated offer by channels and segments and with specialized attention teams to reach the final customer. In addition, the effective innovation, which is provided within the strategic framework with incentives for personnel in order to count on profitable people with relevant skills, has helped it develop non-traditional advantages as well as differentiated capabilities to reinvent products, processes and existing business models; the ability to create a deep insight of customers from emerging markets, developing or adjusting products to meet the needs at the right price.

On the other hand, CSAs in the process of internationalization of *Grupo Nutresa* are not so evident, but it can be inferred that the level of development of the legal system and institutions in Colombia allowed it to plan its expansion with scenarios of legal stability and that, counting with a basic capital market, could have facilitated access to resources to implement the various acquisitions, mergers, new investments and alliances.

Regarding the internationalization strategy, although *Grupo Nutresa* expresses a desire to have an internationalization strategy of its own, by placing the CSAs and FSAs in the Rugman's matrix it is validated that the impact of CSAs is less because there are mainly FSAs that are located in the cell N. 3; therefore, the path they have followed in their international expansion where acquisitions predominate is consistent with the traditional theory. The applicability of modern theory is also validated, which points out that multinationals from emerging countries make a recombination of strengths and, *Grupo Nutresa* by considering two-way learning necessary from the host country to the parent company and vice versa, complements its FSAs which is evidenced by the expansion of distribution networks and their product portfolio. This coupled with a clear vision of internationalization, which applies in management monitoring through the tool set by *Grupo Nutresa* called "Multilatina Work Agenda," makes that in each of the levels of the company the personnel are involved with that purpose ensuring its success.

Reviewing the traditional and modern theory of internationalization and business groups, to implement Rugman's matrix of firm-specific advantages and country-specific advantages by identifying the factors that *Grupo Nutresa* has, it can be concluded that there is a high degree of applicability and, therefore, companies wishing to reach a successful process of internationalization as *Grupo Nutresa* should leverage with FSAs in which they are highly competitive and strengthen them with the same process of internationalization.

It is proposed for future research, based on in-depth interviews, to identify what the apparent weaknesses of Colombia have been, but precisely to overcome those weaknesses specific advantages in the firm have been developed, which would not have been achieved otherwise. In particular it is shown that *Grupo Nutresa* mentions its distribution network as one of its main strengths, and it is known that Colombia has a poor infrastructure and road development; eventually, there is a need to explore the hypothesis that *Grupo Nutresa* has achieved efficient distribution strategies because of the few infrastructure facilities provided by its country of origin.

Another alternative for further research on this issue is raising an extension in Rugman's matrix depending on the model of internationalization assumed by *Grupo Nutresa* and, validate its applicability to the internationalization of other Colombian companies.

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